ALAGAPPA UNIVERSITY

(Accredited with 'A+' Grade by NAAC)
Karaikudi - 630 003. TAMILNADU

DIRECTORATE OF DISTANCE EDUCATION

MBA (PM)

Paper - 4.3
Project Exports

ALAGAPPA UNIVERSITY

(Accredited with 'A' Grade by NAAC)
KARAIKUDI-630 003, TAMILNADU

DIRECTORATE OF DISTANCE EDUCATION

M.B.A. (Project Management)

(IV Semester)

PAPER - 4.3

PROJECT EXPORTS

Paper 4.1: PROJECT EXPORTS

UNIT 1

Project Exports: Meaning – Nature and scope – Environment for exports – Marketing of overseas project – Turnkey projects – Construction pro Engineering and consultancy exports.

UNIT 2

Project Export Scenario: Activity-wise analysis – Region-wise analy Destination-wise analysis – Exporter-wise analysis.

UNIT 3

Project Exports from India – Role of EXIM Bank and ECGC.

UNIT 4

Indian Consultancy Exports Scenario – Background snapshot of consult contracts – Turnkey projects – Merits and Limitations – Methods of contracting.

UNIT 5

Financing Project Exports – Institutional support – Appraisal of export proj

UNIT 6

Problems of project exports – Marketing project exports – Promo measures and incentives.

REFERENCES:

1. Srivastava, *International Marketing Management*, Sultan Chand.
2. ITC Publications, *International Trade Centre.*
3. Francis Cherunilam, *International Trade and Export Management*

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(AU / DDE / D10 / Printing / Order 63 / 2019 Date : 09.08.2019 Copies 3
Printer at Sri Saai Printers, Sivagangai - 630 561. Cell : 98405 76215

33243 - PROJECT EXPORTS

Objective:

- To gain knowledge financing projectexport
- To understand the concept of Projectexport

BLOCK I: BASICS OF PROJECT EXPORTS

UNIT 1 Project Exports: Meaning – Nature and scope - Importance – Implication-features.

UNIT 2 Environment for project exports – Marketing of overseas project – Turnkey projects Meaning- Importance – Implication-Scope-features.

UNIT 3 Construction projects – Engineering and consultancy exports. Meaning-Importance – Implication-Scope-features.

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BLOCK II: PROJECT EXIM BANK

UNIT 5 Project Exports from India – Role of EXIM Bank and ECGC.

UNIT 6 Indian Consultancy Exports Scenario Meaning- Importance – Implication-Scope-features

UNIT 7 Background snapshot of consultancy contracts Meaning- Importance – Implication- Scope-features

UNIT 8 Turnkey projects – Merits and Limitations – Methods of contracting. Meaning- Importance – Implication-Scope-features

BLOCK III: APPRAISAL OF EXPORT PROJECT

UNIT 9 Financing Project Exports Meaning- Importance – Implication-Scope-features

UNIT 10 Institutional support Meaning- Importance – Implication-Scope-features.

UNIT 11 Appraisal of export projects. Meaning- Importance – Implication-Scope-features.

BLOCK IV: PROMOTIONAL MEASURES

UNIT 12 Problems of project exports Meaning- Importance – Implication-Scope-features.

UNIT 13 Marketing project exports Meaning- Importance – Implication-Scope-features.

UNIT 14 Promotional measures and incentives: Meaning- Importance – Implication-Scope-features.

REFERENCES:

1. Srivastava, International Marketing Management, SultanChand.
2. ITC Publications, International TradeCentre.
3. Francis Cherunilam, International Trade and ExportManagement.

UNIT I

PROJECT EXPORTS

Learning objectives: To have an introductory knowledge about the subject of Project Exports and to gain an overview about the various forms of Project Exports.

Introduction

India has emerged as a major exporter of capital equipment and other sophisticated items, including projects and consultancy services. Project exports are regarded a key indicator of technological maturity and industrial capabilities of a country.

In the 1950s, the composition of the trade was characterized by the preponderance of primary products. The decade of 1960's witnessed a distinct change in the structure and pattern of India's export trade. During this period, major diversification in the composition of trade took place, with the increase in the share of manufactured products-engineering goods, in particular. India's exports during the last three decades have gone through two distinct phases of structural transformation. The succeeding decades of 1970 saw the emergence of a new dimension in India's export marked by shift in its pattern of product exports to project exports. During the 1980's India has undoubtedly laid a firm foundation for project exports in the world market. The initial stimulus for India's break through in project exports was provided by the construction boom in West Asia and North Africa, following the dramatic spurt in oil prices.

Project Exports- Definition and Meaning

A project is defined as the one which includes not merely supply of goods but also supply of services such as design, erection, commissioning or supervision of a system or a facility to the client. The definition covers both the supply and services contracts.

In simple terms, export of engineering goods/services on deferred payment terms and execution of turnkey projects and civil construction. Contracts abroad are collectively referred to as "Project Exports". Indian construction or process engineering contractors and consultants (service providers/project exporters) endeavor to secure and execute projects

Project Exports-Nature

Project exports differ from Merchandise Exports or Service Exports. It refers to the whole range of activities from the conception of idea to maintenance of the installation. Hence the nature of Project Exports differentiates it with Merchandise or Service exports. Project exports are associated with Infrastructure Development.

Project exports fall under any one of the following definitions, as under:

(i) "Turnkey projects, namely, those which involve the rendering of services like design, civil construction, erection and commissioning of plant or supervision thereof, along with supply of equipment."

(ii) "Engineering service contracts, involving the supply of services alone, such as design, erection, commissioning or supervision of erection and commissioning."

(iii) "Consultancy services contracts which may include the preparation of feasibility studies, project reports, preparation of designs and advice to the project authority on specifications for plant and equipment, preparation of tender documents, evaluation or tenders and purchase of plant and equipment."

(iv) "Civil construction contracts, with or without preparation of designs or drawings for the civil work to be undertaken. The categories mentioned above are not to be treated as mutually exclusive. A project could include supply of services or equipment, coming under one of the categories."

Project Exports-Scope

Project Exports are associated with Infrastructure Development, in which Technology plays an important role. Project exports are considered as an indicator of a country's technological and engineering superiority. Project exports, when compared to Merchandise and Service exports are more stable and less competitive. Project Exports assure stable inflow of Foreign Exchange to a country.

Thus, scope of work under Project Exports cover:

(a) Design of machinery, equipment and planning of services;

(b) Manufacturing;

(c) Transportation up to the site;

(d) Installation and commissioning; or supervision of erection and commissioning; and

(e) Management services of a project or post-commissioning services rendered.

PROJECT ENVIRONMENT

It is evident from the spectacular performance of Indian project exporters that Economic, Political, Technological, Demographic and International Environment play a crucial role in promotion of project exports.

Economic Environment

The success of project exports from India largely depends on the economic system and the economic policies that have undergone a dramatic shift since 1950's. India's system of economic planning had secured the necessary strength for her infrastructure development. The large scale import of capital and engineering goods in the process of industrialization before 1970 has given India, the necessary strength. The capabilities acquired by the Indian engineers and technocrats in the process of Industrialization and infrastructure development has provided the necessary leverage for Indian project exporters in execution of project overseas. The economic policy pursued by India in promotion of foreign trade in general and project exports in particular have complemented her strength in project exports. The subsequent import policies and especially the one under the New Foreign Trade Policy 2004-09 has provided the necessary impetus to India's project exports.

Political Environment

The political philosophy of the Government influences the economic and business policies to a greater extent. The Nehruvian political philosophy of 'Democratic Socialism' has provided a strong base for India to gain strengths in the sphere of domestic economic growth as well as in the International arena.

The policy of industrialization combined with the model of planned economic development an import of Soviet Russia has helped India to gain technological capabilities. Based on the political philosophy of Socialism, Nehruvian foreign policy of NAM (Non-Aligned Movement) has won many friends for India especially from the Developing and Under Developed World. For the countries in the Developing and Under Developed World, the technology and mastery in engineering acquired by the Indian technocrats is a superior technology for their economic growth and development. The Developing and Under Developed World still continues to be a secured market for India's project export.

Technological Environment

As indicated above project exports are indication of technological progress of Nation, an insight about the technological environment of India is necessary. The nature of technology used for production of goods and services is an important factor responsible for the success of the business firm. Technology consists of the types of machines and the processes available for use by a firm and the way of doing things. The use of superior technology gives a firm a competitive advantage to compete globally. In the last 50 years India has transformed herself from a receiver of technology to a supplier of technology. India's technological superiority can be gauged from her success in information technology and engineering technology. It is remarkable to note that with a moderate investment in R&D India could make rapid progress in technology. This is an important environmental factor for her project exports.

Demographic Environment

Demographic environment includes the size and growth of population, life expectancy of the people, rural-urban distribution of population, the technological skills and educational levels of labour force. All these demographic features have an important bearing on the functioning of business firms. The skills and ability of a firm's workers determine to a large extent how well the organization can achieve its mission. Demographic environment is also important factor for business firms as it determines the choice of technology by them. One of the factors that led to the success of project export from India is the level of skill and education of its labour force. Moreover, the availability of semi-skilled and low wage demanding workers have contributed to the success of Indian project exports. The latter is particularly true in the case of construction projects.

International Environment

The process of globalization has helped the growth and development of project exports from India. The oil rich Middle East has focused on infrastructure development which has benefited Indian project exports. The institutional funding by the international financial institutions has also secured overseas market for Indian project exporters. India being a founder member of SAARC, this region holds a future for project exports from India. The ADB funded projects in the Asia-Pacific region have always recommended Indian project exporters for executing infrastructure development project in these regions.

MARKETING OF OVERSEAS PROJECT

Marketing of Project Exports is a challenging task in the International market, especially for developing countries. The projects completed by the Indian companies cover a range of works related to all kinds of civil engineering and industrial activities, such as dams, hydroelectric and thermal power plants, industrial plants, utility buildings, large scale oil and natural gas pipelines, petrochemical refineries and complexes, motorways, tunnels and bridges, seaports and airports, large-scale housing projects, high-rise and prestige - buildings, hotels and tourist resorts etc.

Despite stiff international competition, Indian companies both in the private and public sector did achieve a fair degree of success in terms of both quality and quantity of projects executed.

It may be relevant at this stage to point out that multilaterally funded project involving international competitive bidding procedure formed the major share of export contracts secured by the Indian project exporters. Over the last few years, a number of Indian private and public sector construction and engineering companies as well as consultants have executed a diverse range of projects across the globe. Project exports from India during the last few years have shown an upward trend, which would be evident from the following table:

Contracts secured by Indian project exporters overseas

VALUE (1997-98 TO 2002-03) : RUPEES VIS-À-VIS DOLLARS

YEAR	VALUE Rs. Crores	US $ Mln
1997-98	430.71	114.8
1998-99	1492.83	359.7
1999-2000	1539.16	358.0
2000-01	1224.84	271.46
2001-02	1543.87	328.48
2002-03	2896.43	603.42

The following table will illustrate the magnitude of projects executed by the Indian Engineering Contracting and Consulting companies in recent years:

Lok Global & National Constn. Ltd	Kuwait	Construction of Bungalows	Social Infrastructure
KEC International Ltd.	Lebanon	Design and supply of towers and all line materials and construction of 225 KV, 301 Km. long transmission line	Energy
Larsen and Toubro Ltd	Bhutan	Construction of a 4.4 km. long tunnel in Tala	Energy
Hindustan Construction Co. Ltd.	Bhutan	Construction of concrete gravity dam along with appurtenant works	Energy
Hindustan Construction Co. Ltd.	Bhutan	Construction of surge shaft and head race tunnel	Energy
Jaiprakash Industries Ltd.	Bhutan	Construction of Head Race Tunnel from Padechu Adit (Tala Hydro Electric Project)	Energy

Hindustan Construction. Co. Ltd.	Bhutan	Construction of Concrete gravity Dam & Head Race Tunnel	Energy
Jaiprakash Industries Ltd.	Bhutan	Construction of Surge Shaft Pressure Shafts, Power House and Tail Race Tunnnel	Energy
Larsen and Toubro Ltd	Malaysia	Supply of Primary Reformer and Waste Heat Recovery Package as well as Ammonia Converter package including Site Supervision of Erection	Industry
KEC International Ltd	Saudi Arabia	Turnkey job of 380 KV Transmission lines associated with the integration of Ghazalan II Power Plant with Alfadhi and gunan substations	Energy
IRCON International Ltd.	Bangladesh	Jamuna Rail Link Phase II	Transport & Communication
Strength & Support Builders (P) Ltd.	Libya	Construction of 964 housing units at Hadba	

GLOBAL PRESENCE

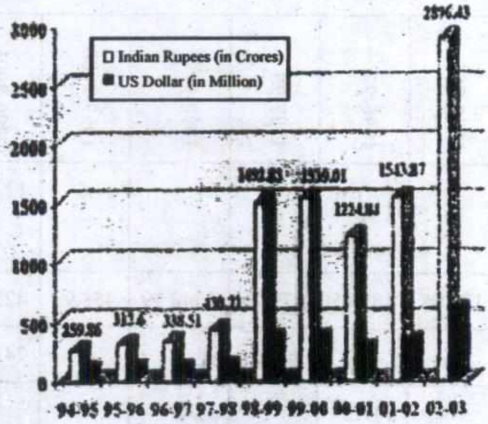
Over the last three decades or so (even before the formation of PEPC in 1984), the Indian project exporters have successfully executed projects in almost all parts of the globe. Indian project exporters taking advantages of the significant opportunities to tap the immense potential for project exports, enhanced their presence in markets worldwide including South East Asia and

SAARC countries, CIS countries, Africa and Latin America besides the Middle East.

Following table is drawn to depict the global presence of Indian project exporters:			
Europe	**Asia & OCENIA**	**AFRICA**	**AMERICA**
ECM COUNTRIES • FRANCE / LUXEMBOURG / U.K. **EAST EUROPEAN COUNTRIES** • (ERSTWHILE) USSR / UZBEKISTAN **REST OF EUROPE** TURKEY	**ESCAP :** • THAILAND/ BANGLADESH/ BHUTAN/BRUNEI / HONGKONG/ INDONESIA/ • JAPAN/LAO PDR/MALDIVES/ NEPAL/ SRI LANKA /VIETNAM **REST OF ASIA & OCENIA** • IRAN/IRAQ/ JORDAN/ KUWAIT/ LEBANON/OMAN / PDR YEMEN/ • QATAR/SAUDI ARABIA/SYRIA /U.A.E/Y.A.R	ALGERIA/ ANGOLA / BOTSWANA/ ETHIOPIA / LIBYA/MALAWI / MAURITIUS/ MOZAMBIQUE REUNION ISLAND / TANZANIA / UGANDA/ZAMBIA	**SOUTH AMERICA** • PERU / VENEZUELA

The Indian manufacturers and/or exporters of project construction items have, over the years, exported their products in almost all the countries globally.

PERFORMANCE OF PROJECT EXPORTS



Upto 1981 Indian Project contractors undertook projects aggregating to Rs. 5000 crores and an astounding amount of US$ 1.5 billion was repatriated by Indian project exporters including profits, value of items exported and repatriated earnings from the employees working in these projects. Between 1981 and 1991, the total project exports were approx. Rs. 3500 crores. Though there was a decrease in the value of project secured and executed by Indian project exporters overseas from 1992, during the year 1998-99 the value of projects executed by them was Rs. 1493 crores and subsequently during the year 1999-2000 it went upto Rs. 1539crores. The year 2002-03 witnessed project exports to the tune of Rs. 2897 crores.

With a view to appreciating the export performance of Indian project exporters, some statistical details are given below:

SECTOR-WISE (1995-96 TO 2002-03)									
Sector	**1994-95**	**1995-96**	**1996-97**	**1997-98**	**1998-99**	**1999-2000**	**2000-2001**	**2001-2002**	**2002-2003**
Agriculture & Natural Resources						17.5	12.22		
Energy	95.0	185.85	185.85	279.25	1340.39	458.9	425.84	743.84	1866.44
Environment				25.0			74.06		
Industry			11.16		3.35				
Multi-sector					112.00		13.86	316.14	163.96
Social Infrastructure	92.36	122.99	131.07	11.74	3.68	250.0	661.25	280.60	756.65
Transport & Communication	72.5	181.53	4.54	73.46	30.85	811.0	16.73	175.68	92.04
Consultancy		8.08	5.89	41.26	2.56	1.7	20.86	27.61	17.34
Total (Rs. Cr.)	**259.86**	**312.60**	**338.51**	**430.71**	**1492.83**	**1539.1**	**1224.84**	**1543.87**	**2896.43**
US$ (Mio)	**83.8**	**93.3**	**101**	**114.8**	**359.7**	**358**	**271.46**	**328.48**	**603.42**
Exchange rate 1US$= Rs.	*31.00*	*33.5*	*33.5*	*37.50*	*41.50*	*43.00*	*45.00*	*47.00*	*48.00*

TURNKEY PROJECTS

A turnkey project is a contract under which affirm agrees to fully design, construct and equip a manufacturing /business/service facility and turn the project over to the purchaser when it is ready for operation for remuneration. The remuneration may be in the form of a fixed price (firm plans to implement the project below this price) or payment on cost plus basis(i.e.. total cost

incurred plus profit). This form of pricing allows the company to shift the risk of inflation/enhanced cost to the purchaser.

International turnkey projects include nuclear power plants, air ports, oil refinery, national highways, railway lines etc. Hence, they are large and multiyear projects. International companies that involve in such projects include: Bechtel, Brown and Root, Hyundai Group, Kennengen, Friedrich Krupp Gmb H. etc. The companies normally approach the host country's Governments or International Finance Corporation, Export-Import Bank of USA etc., for financial assistance as the turnkey projects require huge finances.

The recent approach of turnkey projects is Build, Operate and Transfer (B-O-T). or Build, Operate, Lease and Transfer (B-O-L-T). The company builds the manufacturing/services facility, operates it for some time and then transfers it the host country's Government.

The Indian Project exporters are involved in export of turnkey project in many developing and few developed countries. Some of the leading Turnkey project exporters are IRCON, ONGC Videsh and L&T. most of the Turnkey projects are in the segment of Railway engineering and Petroleum and Natural gas exploration. The Development Financial Institutions like IDBI, IFCI, EXIM Bank offer a host of facilities for Turnkey Project exporters from India.

CONSTRUCTION PROJECTS

Construction contract involves erection, civil works and commissioning apart from supply of equipment. Construction project means the work that has been constructed by one country to the other. Contracts under Construction projects involve in the construction of Airport, Townships, High rise buildings, Water-sewerage treatment plants, Flyovers, New Railway lines etc.

Construction Projects permit supply of raw material and equipments to the overseas destination. This is a challenging as well as remunerative factor in project exports. Therefore to facilitate execution of projects either in the domestic market or overseas PEPC, is offering the following equipments:

- Building fixture/Builder's Hardware
- Wood/timber products
- Construction Glass
- Processed – architectural or other construction glass product

- Special Aluminum building products .... Structural glazing systems.
- Floor & Wall materials
- Goverings & fittings
- Stones & Ceramic tiles
- Construction Equipment and accessories
- Miscellaneous / Others

The Indian exporters of construction project have, over the years, exported their products in almost all the countries globally, though particularly they have been constantly exporting their products to the following countries:

- Malaysia,
- Hong Kong
- Singapore
- Korea
- Indonesia
- Taiwan
- UAE
- Mauritius
- Belgium
- U.K.

In general terms Indian project construction items have tremendous scope for exports in the following regions/markets:

- SAARC Region
- Asia (South-East/West (Afghanistan/)
- Africa
- Middle East / Oil Rich Countries
- Russia & CIS Countries
- Latin American countries
- EU
- UK
- USA

As per the report submitted by the task force on Project exports 293 construction bids valued at Rs. 22,548 crores accounted for 23% by number and 22% by value. Out of the 293 bids, 60 bids valued at Rs. 4,126 crores were secured with an aggregate success rate of 20% number wise and 18% value wise during the decade.

Some of the leading Construction Project exporters from India are Larsen and Toubro, IRCON, KEC International etc. EXIM Bank offers credit facilities both to Indian exporters involved in Project exports and the foreign buyers on a Deferred Payment terms. ECGC offer a special policy for Construction works overseas.

The following are some of the areas in which construction works are executed by IRCON overseas:

a) Railways:

IRCON is the flagship Indian organization involved in a gamut of activities in Construction Works overseas. It has carved a niche especially in the construction of railway lines overseas. The services offered cover entire spectrum of activities including construction of New Railway lines, rehabilitation/ conversion of existing lInes, Station Buildings and facilities, Bridges, Regirdering of railway bridges, Tunnels, Signaling and Telecommunication networks, Railway Electrification, Wet leasing of locomotives, Setting up of Production Units for manufacture of Rolling Stock, Maintenance Depots/ Workshops, Concrete Sleepers and Track Components on turn- key basis.

IRCON has the competence of installing any project in Railway Engineering anywhere in the world. A number of important and prestigious projects have been completed successfully in the railway sector, at home and abroad, including construction of more than 2500 Kms. of new rehabilitation of existing track in India and abroad.

b) Highways:

For over last 18 years the company IRCON has engaged in execution of Highways and Roads of International Standards both in India and Abroad, funded by accredited organizations like World Bank, ADB (Asian Development Bank), ADB (African Development Bank), JBIC (Japan Bank for International

Co – operation), Arab Fund for Economic & Social Development, Kuwait Fund, KFW (Kreditanstall Fuer Wideraufbau), etc.

The brief details of IRCON's activities in this field are summarized hereunder:

- Construction of flexible pavement to International Standards
- Construction of rigid pavements to International Standards
- Complete Mechanization of Highway Construction (Both rigid and Flexible)
- Usage of latest and World class technology in Highway Constructior
- Deployment of highly experienced man power
- Strict adherence to quality being " ISO 9001:2000 " Organization.
- Delivering the Projects as per schedule to the complete satisfaction of Customer
- Usage of fully batch type automatic Hot Mix Plant for ensuring quality of bituminous production
- Usage of fully automatic high capacity concrete batching plant for ensuring quality of concrete production.
- Construction of bituminous pavement by using full width (9 meter) , Sensor Paver
- Construction of concrete pavement by using full width (9 M) paver for Dry Lean Concrete and full width slip form paver for pavement quality concrete.
- Usage of high capacity, cone crusher for quality control of aggregates.
- Usage of WMM sensor paver at base course level for achieving workmanship and riding quality of finished road.

- o Application of innovative and appropriate methods for execution of Projects under extreme topographical and climatic condition.

c) Buildings:

Services offered cover entire spectrum of activities including construction of all kind of Buildings (e.g. Commercial, Industrial, Airport Hangers, Station Buildings and facilities, Hospitals, Business centers, Setting up of Production Units for manufacture, Workshops / Warehouses etc.), Installation of Air conditioning system and Electrification.

IRCON has the competence to undertake any type of Building project. A number of important and prestigious projects have been completed successfully, at home and abroad.

d) Electrical Works:

As a part of construction works overseas, the Project exporters are involved in Electrical works. The following list showcases the expertise and excellence of IRCON in the area of electrical works.

- Railway Electrification works
- HT Grid & Traction Sub-station of voltage class upto 400 kV
- Industrial Electrification of mega industrial plant
- Power supply distribution network for Metros and Airports
- **Turnkey Project Management** including Design, Supply, Erection, Testing & Commissioning.
- **Pioneer in Railway Electrification works** including Traction Sub-stations
- **In-house design capability** for Grid Sub-stations of voltage class upto 400 KV
- **Customized Software package** for design of Railway Electrification works
- **Simulation studies** for AC Distribution Network.

The following is the list of electrical works executed overseas by IRCON:

- Public Establishment for Distribution and Exploitation of Electrical Energy, Damascus, Syria Arab Republic.

- Balfour Beatty Rail Projects Ltd., (BBRL), UK.
- Dhaka Electricity Supply Authority, Bangladesh
- Ethiopian Electric Power Corporation, Ethiopia
- Ministry of Electricity & Water, Government of Afghanistan
- Ministry of Transport, Government of Afghanistan

ENGINEERING PROJECTS

Engineering projects involve primarily export of capital goods and industrial manufactures. Typical examples of supply contracts are: supply of stainless steel slabs and Ferro-chrome manufacturing equipments, diesel generators, pumps and compressors.

Indian companies have established good reputation in a wide variety of industrial (turnkey/engineering) projects all over the world in all sectors of economic development.

Indian engineering companies have serviced an impressive array of clientele in diverse fields of operation. Besides taking up projects on a concept to commissioning basis, these firms have also undertaken pure consultancy jobs for owners who can manage the finer intricacies of the project themselves.

Some of the leading engineering project exporters are BHEL, IRCON, KEC International etc. The government has set up an exclusive export promotion council namely Engineering Export Promotion Council (EEPC). This has been actively promoting engineering project exports from India. The government of India through its various agencies like EXIM Bank and ECGC is providing long-term credit facilities to support Indian engineering project overseas.

CONSULTANCY/TECHNICAL SERVICES

Services contracts, involving provision of know-how, skills, personnel and training are categorized as consultancy projects. Typical examples f services contracts are: project implementation services, management contracts for industrial plants, hospitals, hotels, oil exploration, charter hire of rigs and

locomotives, supervision of erection of plants, CAD/ CAM solutions in software exports, finance and accounting systems.

Service contracts involving provision of personnel and/ or furnishing of know-how and skills are categorized as consultancy projects. These cover a wide range including management contracts of industrial plants, hospitals, hotels, oil exploration, charter hire of rigs and locomotives, supervision of erection of new plants, CAD/ CAM solutions in software exports, finance and accounting systems.

Indian consultants have demonstrated capability to provide and match international competition across various sectors. These include:

- IT and IT enabled services
- Power
- Transportation
- Water Supply

A study carried out by Exim India on .Engineering Consultancy Exports., has noted a significant wage based cost advantage in engineering and technical personnel. Indian engineers also carry high reputation, with world-class productivity levels.

Global export of services has increased at a faster pace than merchandise exports. India's commercial services exports totalled US$ 20.1 billion in 2001 registering a growth rate of 14%, next only to Ireland at 15%.India.s share in exports of commercial services also improved to 1.4% in 2001 from 1.2% in the previous year. All these figures clearly indicate the immense opportunities that services exports hold for India.

India has over 200 consultancy and design organizations. These are organizations has achieved considerable success in export of consultancy services for cement plants, Agriculture research services, Sugar projects, Cooling tower systems, Architectural, Structural and Air-conditioning engineering, Transport and communications management, market surveys, etc. at present India is the world leader in IT consultancy. The foreign exchange earnings through IT consultancy services has contributed significantly to the foreign exchange reserves of India. India's consultancy exports are spread to all

continents of the world. It is noteworthy that in a short span of time consultancy services exports has become the main stay of project exports.

Conclusion

Over the last two/three decades the Indian project exporters have not only successfully executed large and prestigious projects world-wide, but have acquired a pool of knowledge, skills and experience in their fields of technological excellence.

The implementation of most of the projects requires the use of advanced technology. During the past, Indian companies have competed with the world's best-known contractors, won contracts and successfully fulfilled their undertakings. They have achieved a volume of work in major foreign countries spread over all the seven continents. Hundreds of thousands of Indian workers employed on these projects have sent their savings to their families in the form of hard currency. In the fulfillment of their tasks, the contractors have used millions of dollars' worth of Indian materials and equipment, thus supporting our industrial production and our exports. By transporting these materials and equipment, India's heavy vehicle fleet has made an important contribution to the operations of the transport sector. Indian project exporters have been progressively gaining strength and experience not only in India but are increasingly becoming capable and competent to successfully execute projects overseas.

In regard to execution of projects especially overseas, Indian project exporters have to their credit the following advantages:

1. Timely and fast completion
2. Quality execution with adherence of international standards
3 Services play a crucial role in the economy of any country.

Consultancy profession assumes a vital significance amongst the services sector as a catalyst of change in the ever expanding industrial scenario.

In order to optimizing and maximizing the use of resources to enhance efficiency and overall returns from a project, the role and help rendered by the consultants are enormous. A very large number of consultants do exist in India. The wide spectrum of disciplines and services provided by Indian consultants range from project identification to commissioning involving, supervision and

training of personnel, market surveys, rehabilitation of sick units as well as operation and maintenance.

Review Questions:

1. Define project exports and bring out the nature and scope of project exports.
2. Briefly explain turnkey projects and engineering projects.
3. Explain in detail about construction works and consultancy project overseas.
4. Describe the market and prospects for Indian project overseas.
5. Describe briefly the environmental factors that promote project exports.

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UNIT II

PROJECT EXPORTS SCENARIO

Learning Objectives: To gain an overall idea about Project Exports from India and its importance in India's external trade.

Introduction

Project Exports from India have been increasing steadily over the years indicating the growing stature of Indian expertise overseas in a wide range of activities, and upward movement in the value chain of its export performance. From a modest beginning in the early seventies, Indian companies have made impressive progress in a number of areas like civil construction projects (road, railways, dams, airports, etc.), turnkey projects (power generator, transmission and distribution, industrial plants, etc.), technical services (engineering design, project engineering, operation and maintenance of industrial plants, etc.) and earned a niche for themselves in the developing country markets. Major policy initiatives since the past decade have been instrumental in preparing India for a period of rapid export growth as also becoming a major player in an increasingly inter-dependent world economy. Project Exports reflect the technological maturity and industrial capability of a country. The nature of Project Exports being undertaken now reflects the technological maturity and industrial capabilities in the country.

They indicate growing sophistication of Indian exports giving visibility to the Indian technical expertise and project execution capability in overseas markets and boost the economy in manifold ways including generating project revenues, creation of secured markets for goods and services, import of new technology and training of personnel, employment creation during construction and operation phases and saving of foreign exchange.

PROJECT EXPORTS SCENARIO

During the decade (1990-2000), 1268 export bids valued at Rs. 102,694 crores were submitted. Out of the 1268 bids, 418 bids valued at Rs. 18,033 crores were secured with an aggregate success rate of 34% by number and 20% by value. During 2003, there are 140 project export contracts valued at over Rs. 17,800 crore (approx. US$ 4 bn) under execution in 39 countries across Asia,

Africa and Europe by 31 Indian companies. The projects range from building hydro electric power stations in Bhutan, transmission line projects in Tunisia to operations and maintenance of cement plant in Saudi Arabia. **Many of these projects are funded by Multilateral Funding Agencies (MFAs) and the contracts have been won by the Indian companies against stiff international competition.**

Projects funded by Multilateral Funding Agencies (MFAs) are characterised by professional appraisal for technical feasibility and economic viability. As the funds for such projects are fully tied up, the contractors are ensured timely payment during contract execution. Also, host country payment risks do not exist and bid evaluation and selection process are very transparent and fair. Such projects cover most of the major sectors of economy such as agriculture, energy, transport and communication, industry, water supply and sanitation, education, health and urban development. Recent trends indicate an increasing focus and funding of projects in the social sector and poverty reduction programmes. These projects represent a sizeable and promising business opportunity for Indian project exporters in areas where they possess significant competitive advantage and domain expertise, while simultaneously minimising the risk of non-payment. Projects in the developmental field conducted by developing nations are those where the level of technology is high with difficult operating conditions and the skills and expertise required to execute such projects are well within the capabilities of Indian project exporters. At the same time, the fact that funding is being provided by MFAs, offers strong payment assurance. However, the level and extent of competition are much higher as many firms from developed countries prefer to participate in these project opportunities. Though Indian companies' share in projects funded by MFAs in India is impressive, the share in overseas projects is marginal. For instance, as per prior review contracts under World Bank funded projects in 2003, Indian companies secured contracts valued at US$ 324.5 mn, out of which, 96% contracts by value were for projects in India and only 4% for overseas projects. World Bank data related to payments to India for local and foreign procurement shows that India's share in foreign procurement is marginal in comparison to local procurement For instance, in 2003, World Bank payments to India for local and foreign procurement amounted to US$ 1.2 bn (of which US$ 67 mn is for foreign procurement), which accounted for 6.76% of World Bank's

total disbursements. While the total disbursements to India for foreign procurement has almost doubled, growing from 1.21 per cent (of World Bank's total project disbursements) in FY 2001 to 1.27 per cent in FY 2002 and further to 2.34 per cent in FY 2003, there is scope for Indian companies to enhance their prospects of securing more contracts in World Bank funded projects. Even a modest increase in India's share, would translate into significant additional export earnings. In addition to projects funded by MFAs in various countries, any developing countries offer scope for project exports, if suitable credit packages are offered by the bidders. Increasingly, projects on BOT (Build, Operate and Transfer) basis are becoming popular. Long term deferred credit will play a major role in securing project export contracts.

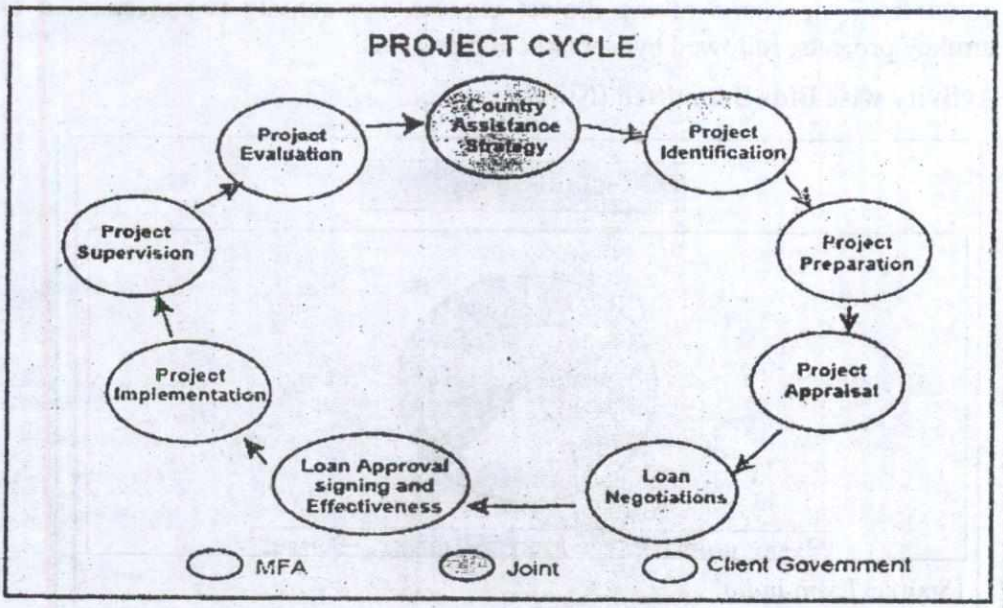
PROJECT CYCLE

World Bank projects progress through six stages. These are Identification, Preparation, Appraisal, Negotiation, Implementation and Supervision, and Evaluation. The first four stages take place before the World Bank formally approves the project. The Implementation and Supervision stage occurs after the loan is approved and while the project is underway. The Evaluation stage takes place after the Project is completed and funds are disbursed. A Joint Venture with the foreign client involves formulation of strategy to avail Assistance from the Country where project is executed. The Client Government/Country is more actively involved in Project Preparation and Project Implementation.

Early identification of a project opportunity at the initial stage of the project cycle can endow advantages in terms of gaining valuable lead-time for ground work activities and preparation of competitive bids for such projects by Indian companies.

AWARDING OF CONTRACTS

Most large contracts in World Bank supported projects are awarded after International Competitive Bidding (ICB), where the contract must be awarded to the "lowest evaluated" responsive bidder. In some instances (usually with smaller contracts) where foreign interest is unlikely, other methods such as Local Competitive Bidding (LCB) are used. However, foreign companies are not necessarily excluded from bidding, and therefore, they should explore such possibilities through their representatives.



The World Bank has, however, agreed that in the interest of encouraging the development of local manufacturers and civil-works contractors, domestic companies may be eligible for limited preferences in the ICB process.

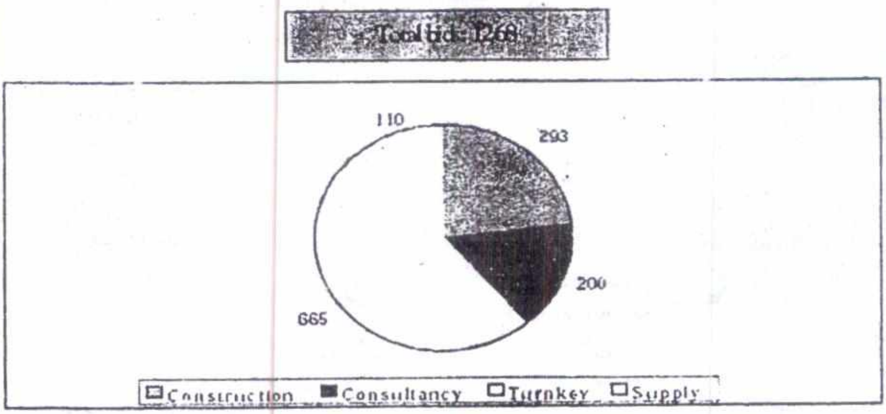
Consulting firms are selected mainly on the basis of experience and capability, although, with prior World Bank agreement, price may also be considered. Borrowers usually invite a small group of firms – compiled on a "short list" – to submit proposals. From this group, one is eventually selected, subject to Bank approval.

ACTIVITY-WISE ANALYSIS

The largest number of bids was submitted for turnkey projects, followed by construction, consultancy and supplies. It may be ascertained from the following pie chart that nearly 50% of the Project exports are in the form of turnkey projects. Construction projects follow turnkey projects in terms of number of International Contracts awarded to the Indian Project exporters. It is observed that turnkey projects lead the Project exports from India both in terms of numbers and in terms of value, followed by Construction projects. It may be

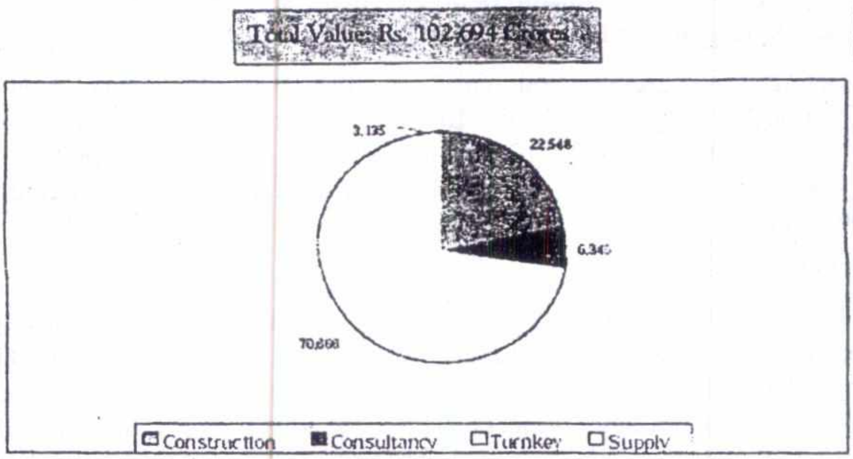
noted from the charts of the Project exports, the activity is concentrated on turnkey projects, followed by Construction projects.

Activity wise Bids Submitted (Number wise)



(Source: Exim India)

Activity wise Bids Submitted (Value wise)



(Source: Exim India)

Construction Contracts

Construction contracts involve civil work, steel structural works as also associated equipment supply, erection and commissioning.

- o 293 construction bids valued at Rs. 22,548 crores accounted for 23% by number and 22% by value.
- o Out of the 293 bids, 60 bids valued at Rs. 4,126 crores were secured with an aggregate success rate of 20% number wise and 18% value wise during the decade.

Consultancy Contracts

Consultancy contracts involve deployment of personnel, furnishing of know-how/skills operation and maintenance services and management contracts.

- o 200 consultancy bids valued at Rs. 6345 crores were submitted, accounting for 16% by number and 6% by value of the total bids submitted during the period.
- o Out of these, 120 bids valued at Rs. 2988 crores were secured with an aggregate success rate of 60% by number and 47% by value during the decade.

Turnkey Contracts

Such contracts involve supply of equipment, along with related services like design, detailed engineering, civil construction, erection and commissioning of plant.

- o 665 bids valued at Rs. 70,666 crores were submitted, which accounted for 52% by number and 69% by value of the total bids submitted during the decade.
- o Out of the 665 bids submitted, 173 bids valued at Rs. 9,257 crores were secured, which represented a success rate of 26% number wise and 13% value wise.

Supply Contracts

Supply contracts involve export of capital goods and industrial manufactures.

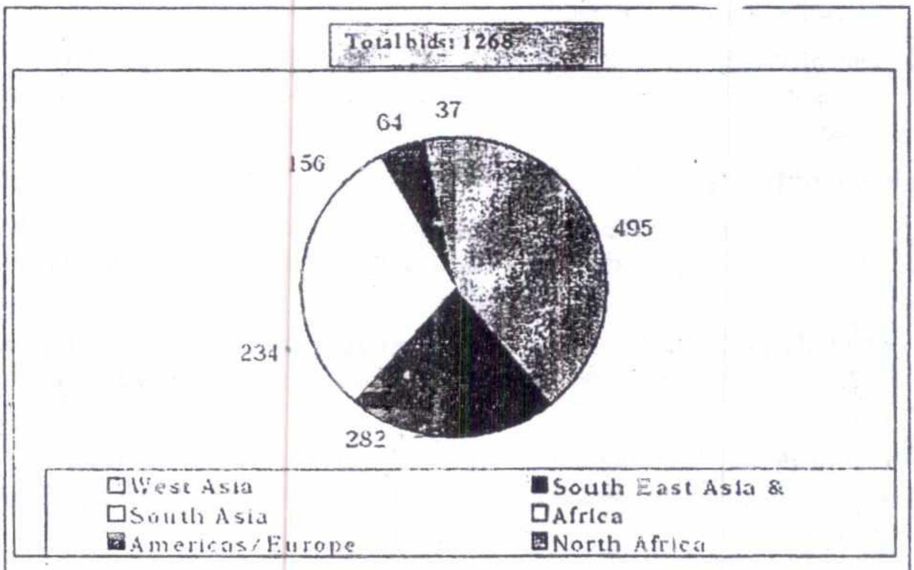
- o 110 bids valued at Rs. 3135 crores were submitted, which constituted 9% by number and 3% by value of the total bids submitted.

- Out of the 110 bids submitted, 65 contracts aggregating Rs. 1,662 crores were secured, which represents a success rate of 59% by number and 53% by value.

REGIONWISE ANALYSIS:

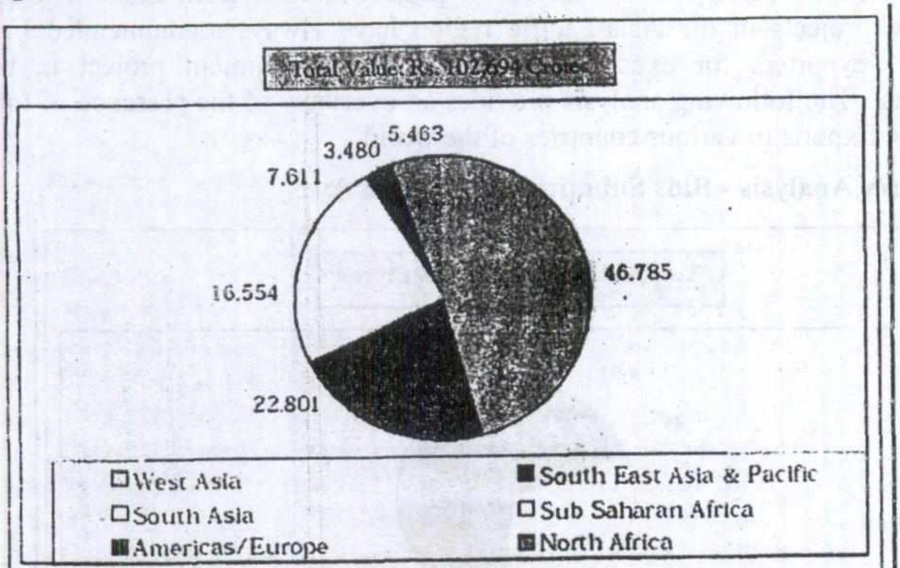
The initial stimulus for India's break through in project exports was provided by the construction boom in West Asia and North Africa, following the dramatic spurt in oil prices. Since the late 1980s, India's Project exports activities is concentrated in West Asia, South East Asia and Pacific, South Asia, Africa and North Africa. The following analysis provides an overview of Project exports activity from India in various parts of the world

Region wise Distribution of Bids (Number wise):



(Source: Exim India)

Region wise Distribution of Bids (Value wise):



(Source: Exim India)

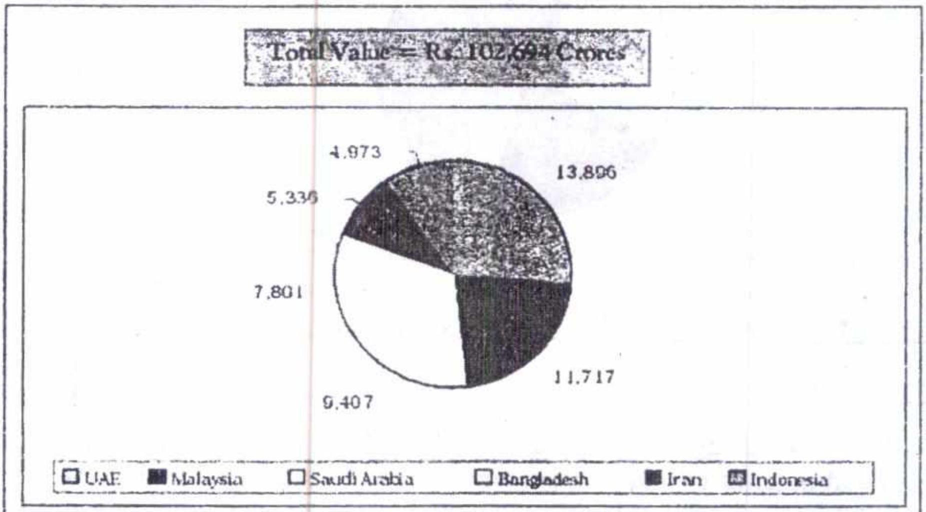
- West Asia emerged as the major market for Indian exporters during the period in terms of total number and value of bids. 495 bids valued at Rs. 46,785 crores were submitted in West Asia. The region accounted for 39% number wise and 46% value wise of the total bids submitted during the decade.
- Viewed in terms of number of bids, West Asia, being the foremost, was followed by South East Asia & Pacific (282) and South Asia (234). As a proportion of total bids submitted during the decade, South East Asia constituted 22% both by number and by value, South Asia was 18% number wise and 16% value wise.

DESTINATION WISE ANALYSIS

The process of globalization has helped the growth and development of project exports from India. The oil rich Middle East has focused on infrastructure development which has benefited Indian project exports. The institutional funding by the international financial institutions has also secured

overseas market for Indian project exporters. India being a founder member of SAARC, this region holds a future for project exports from India. The ADB funded projects in the Asia-Pacific region have always recommended Indian project exporters for executing infrastructure development project in these regions. The following analysis provides an overview of the presence of Indian Project Exports in various countries of the world.

Country Analysis - Bids Submitted (Value wise):



(Source: Exim India)

- Indian bidders have gained more confidence, expertise and have diversified their markets for project exports, which is evident from the increased participation in terms of number of markets. UAE, Malaysia, Bangladesh, Indonesia, Saudi Arabia and Iran are the most favoured destinations.
- Ranked in terms of number of bids, the principal market for Indian project exports was UAE with 163 bids followed by Malaysia (115) and Bangladesh (112), which accounted for 31% of the total bids during the decade. In terms of value, UAE accounted for 14% of the total value of bids followed by Malaysia (11%) and Saudi Arabia (9%). The top six

countries accounted for 45% by number and 52% by value of the total bids during the decade.

EXPORTER-WISE ANALYSIS

Project exports are indication of technological progress of Nation, an insight about the technological environment of India is necessary. The nature of technology used for production of goods and services is an important factor responsible for the success of the business firm. Technology consists of the types of machines and the processes available for use by a firm and the way of doing things. The use of superior technology gives a firm a competitive advantage to compete globally. In the last 50 years India has transformed herself from a receiver of technology to a supplier of technology. India's technological superiority can be gauged from her success in information technology and engineering technology. It is remarkable to note that with a moderate investment in R&D India could make rapid progress in technology. India's public sector continues to be the leader in Project Exports.

On an average during the decade, bids were made by 42 exporters. The highest number of bids was submitted by the following companies.

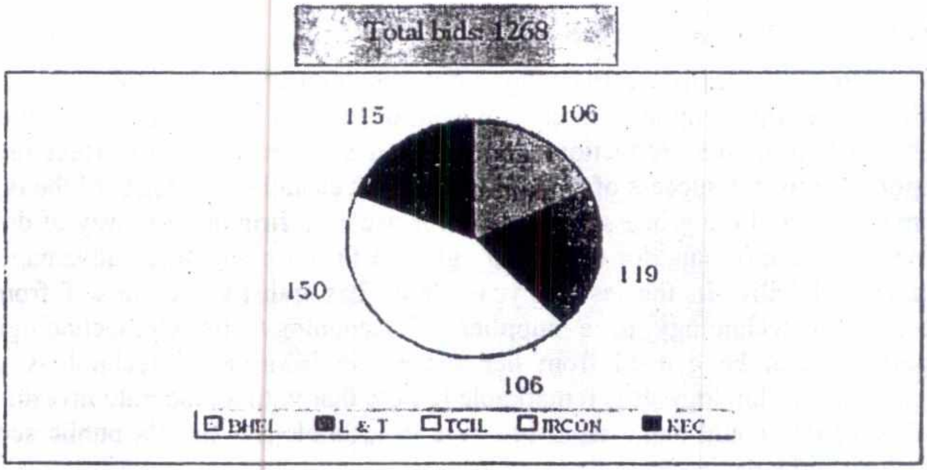
- IRCON International Limited (IRCON) - 150
- Larsen & Toubro Limited (L&T) - 119
- KEC International Limited (KEC) – 115

The top five exporters accounted for 46% of the total bids. They are:

- Bharat Heavy Electricals Limited (BHEL)- Rs. 15,202 crores
- Larsen & Toubro Ltd. (L&T) - Rs. 13,478 crores
- Telecommunications Consultants India Limited (TCIL) - Rs. 11,568 crores
- IRCON International Limited (IRCON). Rs. 10,827 Crores
- KEC International Limited (KEC). Rs. 10,137 Crores

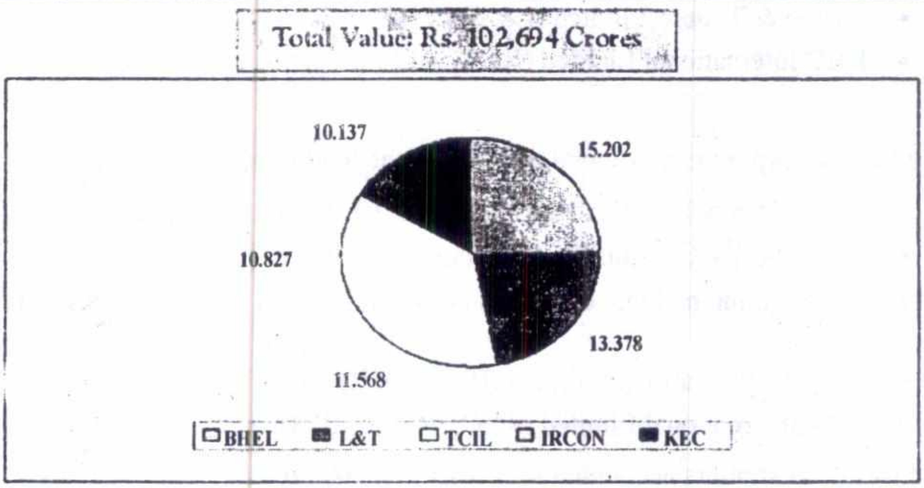
The top five exporters accounted for 60% of the total bids.

Exporters Analysis- Bids Submitted (Number wise):



(Source: Exim India)

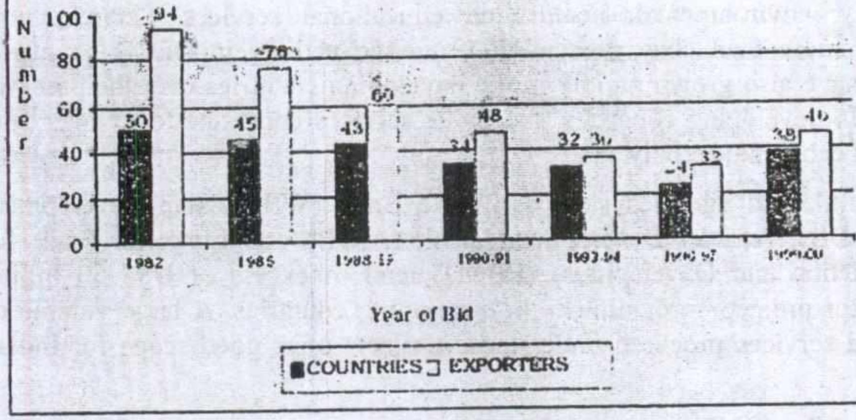
Exporters Analysis - Bids Submitted (Valuewise):



(Source : Exim India)

Countries & Exporters (Number wise):

The figure below highlights the movement of the number of countries where bids were made and number of Indian exporters who submitted bids:



(Source: Exim India)

PERFORMANCE OF INDIAN COMPANIES IN MULTILATERAL FUNDED PROJECTS OVERSEAS (MFPO)

Indian Project Exporters have significant opportunities to tap the immense potential for project exports and enhance their presence in markets worldwide including South East Asia and SAARC countries, CIS countries, Africa and Latin America besides the Middle East. The world construction market is estimated to be worth US$ 2.5 trillion and is dominated by companies from countries such as USA, UK. South Korea, Spain, China, Italy and Japan. Contribution from India to World Construction Industry is marginal at less than 0.2% of the world market. Activities of Indian Project Exporters are concentrated mainly in Middle East and SAARC countries. During the initial years of the 1970s, most of India's project contracts abroad were for civil construction works, concentrated mainly in Iraq and Libya. Developments in the

region adversely affected this trend, but Iraq continued to remain a major market for Indian construction contracts till the Gulf War in 1990-91.

Service sector plays an important role across the national and international economy. Service sector covers a wide range of areas and activities. It extends from the traditional areas of transport, communication, finance, insurance, and tourism to emerging areas such as information technology, environmental, health and educational services. Services now constitute more than sixty percent of economic activity in OECD countries. Services have also grown rapidly in the developing countries over the past two decades. In developing countries like India, services constitute today over fifty percent of economic activity.

Multilateral agencies such as World Bank (WB), Asian Development Bank (AsDB), African Development Bank (AfDB) and European Bank for Reconstruction and Development (EBRD) lend in excess of US$ 50 billion annually for projects/ programmes in developing countries. A large volume of goods and services procured under these projects offer good scope for Indian exports.

Multilateral Funded Projects are characterized by:

- Equal and fair opportunity in procurement to bidders from all eligible countries
- Such projects enjoy high priority in country of execution
- Finance is fully tied up or assured before project implementation.
- Risks of repatriation of funds are minimised.
- Ongoing project monitoring by the funding agencies.

Performance of Indian companies in World Bank Funded Projects:

An analysis of performance of Indian companies in Multilateral Funded Projects Overseas (MFPO) during the last decade shows that;

- 394 bids aggregating Rs. 30,146 crores were submitted for projects funded by multilateral agencies.
- The bids submitted under MFPO accounted for 31% number wise and 29% value wise of the total bids submitted during the decade.

- o Out of the 394 bids submitted, 77 bids valued at Rs. 3,391 crores were secured, reflecting a success rate of 20% by number and 11% by value.
- o The contracts secured under MFPO constituted 18% by number and 19% by value of the total contracts secured during the decade.

World Bank data for FY2001 related to payments to India vis-à-vis other Supplying countries (USA, Japan, Germany, France, Canada and China) for foreign procurement of equipment, civil works and consultancy services reveals that the total disbursement to India has been only 1.21 percent of the total disbursements for projects loans. There is scope for Indian companies to enhance their prospects of securing more contracts in World Bank funded projects.

Procurement Statistics for Foreign Procurement in World Bank Funded Projects

Fiscal 2001

(in US$ million)

Supplying Country	Equipment		Civil Works		Consultants		All other goods		Total Disb.	
	Amt	%	Amt	%	Amt	%	Amt	%	Amt	%
India	26	2.07	<0.5	<0.05	7	1.23	<0.5	<0.05	33	1.21
Brazil	4	0.36	2	0.30	2	0.36	<0.5	0.17	9	0.33
China	29	2.34	116	16.67	7	1.22	<.05	0.06	152	5.63
France	87	6.99	52	7.48	36	6.50	3	1.59	179	6.60
Germany	154	12.36	33	4.70	37	6.67	12	5.63	235	8.70
Japan	153	12.27	37	5.23	5	0.82	1	0.69	195	7.21
Korea	28	2.21	51	7.27	<0.5	<0.05	8	3.65	86	3.17
Malaysia	2	0.18	4	0.55	<0.5	0.08	0	<0.05	7	0.24
United Kingdom	101	8.15	18	2.53	80	14.35	1	0.55	200	7.39
United States	134	10.78	5	0.66	93	16.78	3	1.64	235	8.70

(Source: Annual Report of World Bank 2001)

World Bank data for FY2001 related to payments to India for local and foreign procurement (as shown in Table) shows that India's share in foreign procurement is marginal in comparison to local procurement. Clearly, Indian companies have demonstrated capabilities to secure contracts in India under international competitive bidding conditions. This, however, does not get reflected into contracts overseas although the nature of such projects, the sectors to which these pertain and the skills and expertise required are well-within the capabilities of Indian project exporters. Thus, increased overseas bid participation is essential.

Comparison of World Bank Payments to India for Local and Foreign Procurement:

(in US$ million)

Fiscal Year	Local Procurement	Foreign Procurement	Total amount	% of total disbursements
2001	1274	33	1306	7.56
2000	1152	31	1183	6.39
1999	1285	107	1392	5.75

(Source: Annual Reports of World Bank 1999, 2000 & 2001)

A summary of bids and contracts awarded to the Indian Companies in World Bank funded projects is given as follows:

During 1995-2000, it is observed that a total of 256 bids were submitted by the Indian companies and the success rate of conversion of bids to contracts has been at 33%. In other words every one out of three bids was successful in World Bank funded projects by Indian companies. Transport and Power are the major sectors where most of the bids are made. Indian project exporters have bagged more contracts in Transport and Power sectors. Most of the World bank funded overseas projects from India are executed in Africa and South Asia . Off late South Asia is emerging as an important destination for the World Bank funded project exports from India. Bangladesh and Tanzania tops the list where World Bank funded Indian Project exports are executed.

BIDS SUBMITTED

Period: 1995 – 2000

Particulars	Nos.	Value (Rupees Crores)
Total	256	6878.13

Sector-wise classification for bids submitted (number-wise & value-wise) by Indian companies:

Sector-wise	Nos.	% of total	Value (Rupees Crores)	% of total
Transport	107	41.80	3503.52	50.94
Power	97	37.89	2686.32	39.06
Health	19	7.42	109.13	1.59
Education	8	3.12	25.49	0.37
Telecommunication	6	2.34	211.41	3.09
Water Supply & Sanitation	5	1.97	77.54	1.15
Industry	3	1.17	62.41	0.91
Agriculture	3	1.17	6.49	0.01
Others	4	1.56	30.40	0.44

This summary has been collated primarily from cases which have been referred to Exim India for clearance in pre-bid and post award stages.

Region-wise classification for bids submitted (number-wise & value-wise) by Indian Companies:

Regionwise	Nos.	% of total	Value (Rupees Crores)	% of total
Africa	80	31.25	2098.01	30.50
South Asia	74	28.91	2948.54	42.87
East Asia	55	21.48	1024.84	14.89
Europe & Central Asia	36	14.07	620.42	9.02
Latin & South America	11	4.29	186.32	2.71
TOTAL	256	100	6878.13	100

List of countries where significant number of bids were submitted by Indian companies:

Country	No. of bids submitted
Bangladesh	33
Nepal	32
Ghana	24
Vietnam	17
Philippines	14
Tanzania	14
Ethiopia	8
Zambia	9
Indonesia	7

CONTRACTS SECURED

Period: 1995 – 2000

Particulars	Nos.	Value (Rupees Crores)
Total	84	1004.92

Sector-wise classification for contracts secured (number-wise & value-wise) by Indian companies:

Sectorwise	Nos.	% of total	Value (Rupees Crores)	% of total
Power	32	38.09	341.24	29.44
Transport	31	36.90	395.72	27.84
Health	10	11.92	23.31	2.98
Telecommunication	3	3.57	112.38	14.38
Water supply	3	3.57	4.87	0.62
Infrastructure	2	2.38	133.82	24.33
Others	3	3.57	3.25	0.41
TOTAL	**84**	**100**	**1004.92**	**100**

List of countries where significant number of contracts were secured by Indian companies:

COUNTRY	NO. OF CONTRACTS SECURED
Bangladesh	10
Tanzania	9
Nepal	8
Ghana	8
Philippines	7

REASONS FOR LOSS OF BIDS

Although Indian project exporters have executed a number of projects in diverse markets overseas, however, a quantum increase in project exports can be achieved if constraints faced by Indian companies are adequately addressed.

The reasons for loss of bids include:

- Non-competitive price
- Deviations from specifications
- Credit terms
- Delivery schedules

Others such as:

- clients preference for known/established exporters,
- influence of local associates
- relations with the host country
- cancellation of bids

Effective Bidding

MFAs have established guiding principles, elaborate procedures & practices for procurement of goods & services for projects funded by them. Essential steps to be taken by Indian companies to enhance chances include:

- Key into business opportunities at an early stage in the Project Cycle.
- Adopt selective approach in choice of project opportunities.
- Track selected projects systematically through the project cycle.
- Undertake prefacing activities, particularly in the country, where project is to be executed.
- Coordinate closely with concerned agencies in a focused and issue-specific manner.

ANALYSIS OF LOSS OF BIDS

An analysis carried out by Exim India on mortality rate of bids during the decade (1990-2000) reveals:

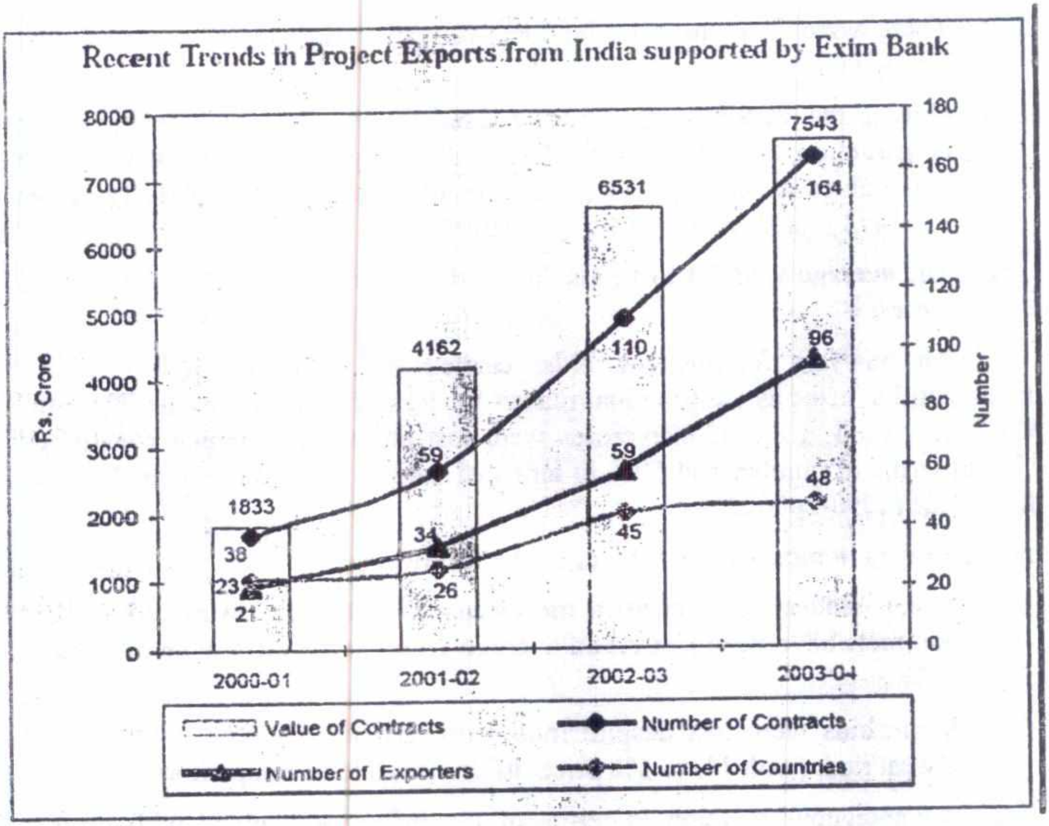
- The mortality rate of bids made during the decade (1990-2000) was 63% in terms of number and 72% in terms of value.

- There were 794 unsuccessful bids valued at Rs. 74,056 crores during 1990-2000.
- Out of the 794 bids, 233 bids valued at Rs. 18,422 crores were for construction, 80 bids valued at Rs. 3357 crores were for consultancy, 436 bids valued at Rs. 50,804 crores were for turnkey and 45 bids valued at Rs. 1473 crores were for supply contracts.
- The average value of lost bids during the decade (1990-2000) was Rs. 93 crores.

An analysis for loss of bids, carried out by Exim India, reveals uncompetitive price as the principal reason for loss of bids. Out of the 794 bids, 371 bids valued at Rs. 43,821 crores were lost due to price which constituted 47% in terms of number and 59% in terms of value of the total bids lost during the decade (1990-2000).

Indian bidders in recent years have cited the following:

- Indian bidders are placed in the category of the ten lowest bidders but contracts have been lost on an average with a price difference of 10% to 25%.
- Some bids were lost despite Indian bidders being lowest or at second lowest rank (with 1% to 5% price difference) due to competitors.
- Advantageous position in terms of the influence wielded with project authorities to secure the contracts especially those that were funded from the buyer's own resources.
- The dominant role of uncompetitive price as a reason for loss of bids suggests that Indian project exporters need to structure their bids more carefully on the basis of rigorous planning including accessing detailed advance information on the projects and developing strategies for sourcing of project components.



Need for Strategic Approach

Clearly, Indian companies have demonstrated capabilities to secure contracts in India under international competitive bidding conditions. This, however, does not get reflected into contracts overseas although the nature of such projects, the sectors to which these pertain and the skills and expertise required are well within the capabilities of Indian project exporters. Thus, increased overseas bid participation is essential. Indian project exporters must seriously consider the possibility of developing strategic partnerships as also securing sub-contracts from major European/ American/Japanese companies.

A conscious effort must be made by Indian companies to make structured marketing efforts through presentations on their skills, expertise and cost competitiveness to the overseas project companies. Also, Indian consultancy

firms can also do well in exports markets, if they can establish strategic alliances with major international consultancy firms for joint bidding. Indian consultancy costs in specialised fields like design engineering, project management, etc. is approximately one-eighth of European cost and one-third of the cost in ASEAN region.

· As a member of MFAs viz. World Bank, Asian Development Bank and African Development Bank, India should be able to leverage its position for increased overseas business. Also, India could take membership, through equity participation, in other MFAs such as the European Bank for Reconstruction & Development and Inter-American Development Bank (currently nonmembers can't participate in projects funded by IDB), which will enable India to effectively participate in projects funded by such institutions. Also, India's membership by way of equity participation in regional development banks will strengthen efforts to expand the trade canvas.

Early identification of a project opportunity at the initial stage of the project cycle (see picture) can endow advantages in terms of gaining valuable lead-time for prefacing activities and preparation of competitive bids (see box) for such projects by Indian companies.

Role of credit in export facilitation is now well recognised. This is so not only for the developing countries, but equally if not more, for developed countries as well. With export facilitation regime being regulated by the provisions of WTO, credit has become the single most external factor, which can inhibit growth of exports from countries. For providing such credit, Export Credit Agencies (ECAs - also referred to as Exim Banks) around the world have become an important component of the export promotion strategy of a country. The correlation coefficient between export credit and exports in India during the period 1991-92 and 2002-03 is significant, at 0.97. Funds flow to the export sector would enable Project Exports to be generated, which would otherwise be lost by the country due to uncompetitive financial packages for Project Export contracts. As capacity utilisation in many industries in India is currently low due to lack of domestic demand, availability of additional export credit would drive growth in exports, thus enhancing capacity utilisation with attendant multiplier benefits for the economy.

Recognising the importance of availability of adequate export credit, most countries around the world maintain official systems for supporting national

exports through a national ECA. A typical ECA acts as an export financing institution, a commercial export insurer, a foreign investment catalyst and a project finance expert. Exim Banks, though differing in role and function (depending upon the country's economic status) and resources, are mostly government owned. However, with the backing of their governments, Exim Banks in other countries are able to take on longer terms and higher risks than commercial banks can do. For instance, large projects that have substantial credit requirements and carry high investment risk are simply not be viable without the involvement of Exim Banks. In this way, the official export credit that Exim Banks provides increases the opportunities for enhanced project exports. Recently, the Prime Minister's Office set up a high level Task Force on Project Exports to explore ways and means to register a quantum jump in India's project exports. The Task Force observed that Exim Bank of India must be strengthened through regular infusion of share capital and resources support, in order to evolve and expand as an institution and strengthen its reach, coverage as a major international financial institution to support India's international trade and investment. Exim Bank of India has been playing a significant role in catalysing India's exports by assisting companies with export orientation through developing commercially viable relationships with such companies by offering them a comprehensive range of products and services directed at enhancing their internationalisation efforts.

To enable Indian companies to take advantage of the current opportunities, Exim Bank of India will need to play an effective role, with a strengthened institutional framework, in terms of offering internationally competitive financing packages with longer tenors.

Review Questions:

1. Describe the scenario and scope of Project Exports from India.
2. Enumerate the various activities under taken by Indian Project Exporters.
3. Provide a detailed analysis of Region and Countries of the world to which Indian Project exports are destined to.
4. Who are major Indian players in the over seas projects market?
5. Provide a detailed analysis of reasons for loss of bids by the Indian Project Exporters.
6. What are the strategies recommended for the Indian Project exporters to be successful in the International market.

UNIT III

ROLE OF EXIM BANK AND ECGC

Learning objectives: To gain an overall idea about the role of EXIM Bank and ECGC in promoting Project Exports from India.

Introduction

India has emerged as a major exporter of capital equipment and other sophisticated items, including projects and consultancy services. Project exports are regarded a key indicator of technological maturity and industrial capabilities of a country. Project exports from India take any one of the following forms:

(i) "Turnkey projects, namely, those which involve the rendering of services like design, civil construction, erection and commissioning of plant or supervision thereof, along with supply of equipment."

(ii) "Engineering service contracts, involving the supply of services alone, such as design, erection, commissioning or supervision of erection and commissioning."

(iii) "Consultancy services contracts which may include the preparation of feasibility studies, project reports, preparation of designs and advice to the project authority on specifications for plant and equipment, preparation of tender documents, evaluation or tenders and purchase of plant and equipment."

(v) "Civil construction contracts, with or without preparation of designs or drawings for the civil work to be undertaken. The categories mentioned above are not to be treated as mutually exclusive. A project could include supply of services or equipment, coming under one of the categories."

ROLE OF EXIM BANK IN PROMOTING PROJECT EXPORT IN INDIA

The Export-Import Bank of India (Exim bank) is a public sector financial institution, established on January 1, 1982. It was established by an Act of Parliament for the purpose of financing, facilitating, promoting foreign trade of India. It is the principal financial institution for coordinating the working of institution engaged in financing export and import. The Exim Bank Act **also empowers the bank to finance export of consultancy and related services,**

assist Indian joint ventures in third countries, conduct export market studies, finance export-oriented industries and provide international merchant banking services. Exim Bank concentrates on medium and long-term financing, leaving the short-term financing to be handled by commercial banks. The Bank is a principal Financial Institution that supports Indian project exporters and consultants to participate in projects funded by multilateral funding agencies.

FINANCE FOR PROJECT AND SERVICES EXPORTS

1. Supplier's credit for deferred payment exports

EXIM bank offers suppliers credit in rupees or in foreign currency at post-shipment stage to finance export of eligible goods and services on deferred payment terms. Suppliers' credit is available both for supply contracts as well as project exports; the latter includes construction, turnkey or consultancy contracts undertaken overseas.

Finance up to 100% of post-shipment credit extended by exporter to overseas buyer is available under the scheme. The rate of interest for supplier's credit in rupees is a fixed rate. Suppliers' credit in foreign currency is offered by EXIM bank on a floating rate basis at a margin over LIBOR dependent upon cost of funds. Period of credit is determined for each proposal having regards to the value of contract, nature of goods covered, security, competition. Repayment period for supplier's credit facility is fixed coinciding with the repayment of post-shipment credit extended by Indian exporter to overseas buyer. The Indian exporter will repay the credit to EXIM bank as per agreed repayment schedule, irrespective of whether or not the overseas buyer has paid the Indian exporter. The exporter repays principal amount of credit to EXIM bank as per agreed repayment schedule. Interest amount are payable to EXIM bank half yearly without any moratorium

2. Consultancy And Technology Services Finance Programme

Indian consultants executing overseas involving consultancy and technology services, wherein deferred payment terms need to be offered to the client, can utilize the facility. The credit will be extended by EXIM bank in participation with commercial banks or the commercial bank may finance and obtain refinance from EXIM bank.

Loan will be generally in Indian rupees. Loan in other currencies can also be considered, if necessary. The exporter is normally expected to obtain an advance/down payment of 25% of contract value and remaining portion would be covered by credit under the programme. The loan is to be secured by guarantee of foreign government or a guarantee/irrevocable letter of credit of a bank acceptable to EXIM bank. The exporter would also be required to obtain ECGC insurable cover.

3. **Pre-shipment rupee credit**

Credit is available to eligible exporters to buy raw materials and inputs required to produce capital equipment that has to be exported. EXIM bank participates in the credit, if the requirement is for periods in excess of 180 days. Pre-shipment credit up to 180 days is available from commercial banks and, therefore, EXIM bank does not entertain proposals not exceeding this period.

4. Foreign Currency Pre-shipment Credit (FCPC)

Under this programme, short-term foreign currency finance is available to eligible exporters for financing inputs for export production such as raw materials, components and consumables. The finance is repayable in foreign currency from proceeds of the relative exports

Exporting companies and Commercial Banks for on lending to exporting Customers can avail this facility. FCPC can be a cost effective funding source as compared to rupee export credit as well as overseas supplier's credit depending on market conditions for loans under FCPC. As far as commercial banks are concerned, loans availed of from Exim bank are exempt from Cash Reserve Ratio, Statutory Liquidity Ratio and Incremental Credit-Deposit Ratio requirements.

The interest rate shall not exceed 2% over LIBOR. In case FCPC is extended through commercial bank which does not have foreign branches, the interest rate should not exceed 2.5% over LIBOR or any other rate as specified by Reserve Bank of India from time to time. Interest on refinance to commercial banks will be mutually agreed upon. The loan is repayable within 180 days from the date of disbursement.

4. Finance for Rupee Expenditure for Project Export Contracts (FREPEC)

This programme seeks to finance rupee expenditure incurred/required to be incurred for execution of overseas project export contract such as for mobilization purchase acquisition of materials and equipment mobilization of personnel, payments to be made in India to staff, sun-contractors, consultants and to met project related overhead in Indian rupees.

Indian project exporters who are to execute project export contracts overseas secure on cash payment terms or those funded by multilateral agencies will be eligible. Upto 100% of the peak deficit as reflected in the Rupees cash-flow statement prepared for the project is eligible. EXIM bank will not normally take up cases involving credit requirement below Rs.50 lakhs. Where feasible, credit may be extended in participation with sponsoring commercial banks.

Disbursements will be made in rupees through a bank account of the borrower company against documentary evidence of expenditure incurred, accompanied by a certificate of chartered accountants.

Repayment of credit would normally be out of project receipts. Period of repayment would depend upon the project cash-flow statements, but will not exceed 4 years from the effective date of project export contract. The liability of the borrower to repay the cr5edit and pay interest and other moneys will be absolute and will not be dependent upon actual realisation of project bills.

5. Programme for Export Facilitation

EXIM bank offers term finance and non-funded facilities to Indian corporates to create infrastructure facilities to facilitate India's international trade & thereby enhance their export capability. Infrastructural facilities covered under the programme are:

- Software
- Port development
- Any other infrastructural facility for promoting India's international trade

Financing port development: Indian companies undertaking minor port projects and suppliers of equipment to minor port development project can avail term loans activities such as stevedoring, cargo handling, storage and related activities like dry docks, ship breaking.

Interest rate is linked to banks' minimum lending rate. For term loans in foreign currency loans interest rates are at floating for fixed rates. In the case of non-funded facilities, applicable rate of commission is charged. Repayment period will be 7 to 10 years inclusive of moratorium.

Lending programme for software training institutes Established software exporting company with good export track record and sound financials and reputed software training institutes engaged in high end software training can avail term loans in Indian rupees or foreign currency for (a)acquisition of fixed assets including land, building, hardware, software and related equipment; (b) extending loans towards tuition fees and other charges; and (c)any other activity connected with training that may be agreed to by EXIM bank. Interest rate will be as under previous scheme. The repayment period is maximum of five years, based on projected cash flows inclusive of suitable moratorium.

FACILITIES FOR JOINT VENTURES ABROAD

1. Overseas investment finance:

Any Indian promoter making equity investment in an existing company or a new project overseas with the requisite approval for such investment from the Reserve Bank of India (RBI)/Government of India as also from the government and other concerned authorities in the host country is eligible for finance under the scheme.

The facility will take the form of (a) Rupee term loan to Indian companies for financing their equity investment overseas; (b) Rupee term loans for on lending to their overseas joint venture/wholly owned subsidiaries; and (c) Guarantee for raising overseas joint ventures/wholly owned subsidiaries.

Interest rate on rupee term loan is linked to banks minimum lending rate, foreign currency term loan is made at floating or fixed interest rate based on banks cost of funds.

Margin is maximum upto 80% of the Indian company equity contribution in overseas Joint Ventures/Wholly Owned Subsidiaries.

An overseas investment insurance policy should be obtained by the company from ECGC/MIGA and assigned in favour of EXIM bank. EXIM bank provides 100% refinance to commercial banks in respect of rupee term

loans extended by them to prevailing RBI guidelines, commercial banks can consider loan for equity investment only under EXIM banks refinance scheme.

2. Asian Countries Investment Partners Programme (ACIP):

The programme aims to promote joint ventures in India between Indian companies & companies from Asian countries through four facilities that address different stages of the project cycle. ACIP seeks to catalyse investment flows into India by creation of joint ventures in India between Indian companies and companies from East Asian countries. ACIP is proposed to be a funding instrument providing finance at various stages of a joint venture project cycle viz., sector study, project identification, feasibility study, prototype development setting up project and technical, managerial assistance.

REGULATIONS FOR INDIAN INVESTMENTS ABROAD

Investment abroad by Indian residents may take the following forms for project exports:

(a) Investment by Indian entities in overseas joint ventures (JV);

(b) Investment by Indian entities in wholly owned subsidiaries abroad (WOS); and

(c) Investment by a person in shares and securities issued abroad.

Foreign Exchange Management (Transfer or Issue of any Foreign Security) Regulations, 2000 governs such investments.

General permission has been granted to residents for purchase acquisition of securities:

(a) Out of funds held in RFC accounts;

(b) Issue as bonus shares on existing holding of foreign currency shares; and

(c) Sale of shares / securities so acquired.

General permission has also been granted to a person resident in India for purchase of securities out of their foreign currency resources outside India as also for sale of securities so acquired.

For the purpose of investment in foreign securities in other cases the Regulations have been divided in two parts viz:

Part I – Direct investment outside India

Part II – Investment in Foreign securities other than by way of Direct Investment

Direct Investment Abroad

1. Permitted investment An Indian part has been defined as a company incorporated in India or body created under an Act of Parliament, making investment in a Joint Venture or Wholly Owned Subsidiary abroad, including any other entity as may be notified by Reserve Bank. Any Indian party can make investment in overseas joint venture / wholly owned subsidiary to the extent and subject to the conditions mentioned below:

(a) Investment upto USD 100 million, or its equivalent in a block of three financial years, except investment in Nepal & Bhutan;

(b) Investment in Indian Rupees upto Rs. 350 Crores in Nepal and Bhutan in a block of three financial years. (The ceiling will include contribution to the capital of the overseas JV/WOS, loan granted to the JV/WOS, and 50% of guarantees issued to or on behalf of the JV/WOS.)

(c) The investment should be in a foreign entity engaged in the same core activity (i.e. activity which constitutes at least 50% of the turnover in the previous accounting year) carried on by Indian company;

(d) The Indian party should not have been on Reserve Bank's caution list of under investigation by Enforcement Directorate.

(e) All transactions relating to a joint venture / wholly owned subsidiary should be routed through a branch of an authorized dealer to be designated by the Indian party.

2. Funding The investment may be funded out of one or more of the following sources:

(i) Balances held in EEFC accounts of Indian party;

(ii) By remittance from India up to the extent of 50 per cent of Indian party's net worth as on the last audited balance sheet;

(iii) Utilisation of proceeds of foreign currency funds raised through ADR/GDR issues.

Where the investment is entirely funded out of balances in EEFC account the conditions referred to in clause (c) of paragraph 1 will not apply.

3. Investment out of funds raised through ADR/GDR issues An Indian party is permitted to make direct investment without any monetary limit to the extent of 50 per cent of funds raised through ADRs /GDRs (inclusive of any investment already made out of proceeds of ADRs /GDRs.

4. Investment in financial sector Where the Indian party seeks to make investment in an entity outside India engaged in financial sector it should also fulfill the following conditions:

(a) It has earned net profit during the preceding three financial years from the financial services activities;

(b) It is registered with the appropriate regulatory authority in India for conducting the financial services activities;

(c) It has a minimum net worth of Rs. 15 crores as on the date of the last audited balance sheet; and

(d) It has fulfilled the prudential norm relating to capital adequacy as prescribed by the concerned regulatory authority in India.

5. Investment under swap or exchange of shares arrangement An Indian party engaged in information technology and entertainment software or pharmaceutical or biotechnology sector is permitted to acquire shares of a company outside India which is also engaged in the same activity in exchange of ADRs/GDRs issued to the latter for the shares so acquired, provided;

(a) the investment does not exceed USD 100 million, or its equivalent; or

(b) an amount equivalent to 10 times the export earnings of Indian party during preceding financial year inclusive of any other direct investment made during the same financial year, including investment made under (a) above.

The Indian party acquiring shares under swap or exchange of shares arrangement should comply with the conditions specified in this behalf.

6. Approval of Reserve Bank In all other cases of direct investment abroad which are not covered by general permission referred to in previous paragraphs.

Reserve Bank's approval would be required. For this purpose applications should be made in:

(a) Form ODI if investment in overseas JV/WOS.

(b) Form ODB if the investment is by way of swap or exchange of shares.

7. Capitalisation of exports and other dues The Indian party is permitted to capitalize the payments due from the foreign entity towards exports made to it (other than those which have remained outstanding for more than 6 months) as also fees, royalties or any other payments due from the foreign entity within the ceilings applicable for investment in overseas JV/WOS. The related GR/SDF/SFTEX form should be superscribed as "Export against equity participation in the JV/WOS abroad". Within 15 days of effecting the shipment, the Indian party should submit to the Reserve Bank a customs certified copy of the invoice through the authorized dealer. Within six months from the date of export, or any further time allowed by Reserve Bank, copies of share certificates or any other document issued by JV/WOS abroad as evidence of investment made.

8. Acquisition of a foreign company through bidding or tender procedure Authorised dealers have been permitted to remit earnest money deposit or issue a bid bond guarantee on behalf of an Indian party for acquisition of a foreign company through bidding and tender procedure and also allow subsequent remittances.

9. Obligation of Indian party: The Indian party is under obligation to (a) receive share certificates or any other document as an evidence of investment, (b) repatriate to India the dues receivable from foreign entity and (c) submit the documents / Annual Performance Report to Reserve Bank.

10. Transfer of shares by way of sale: Sale of shares of JV/WOS abroad held by an Indian party would require approval of Reserve Bank.

11. Credit facilities: the Indian party has been permitted to pledge the shares of JV/WOS to an authorized dealer or a financial institution in India for availing of any credit facility for itself or for the JV/WOS abroad.

12. Reporting to RBI: Any investment made in terms of Regulations contained in Part I should be reported to Reserve Bank in for ODA.

LENDING TO FOREIGN GOVERNMENT, COMPANIES, ETC.

1. Buyers' credit:

Credit is extended by EXIM bank to buyers abroad to enable them to import engineering goods and projects from India on deferred credit terms. Similar to direct lending to exporters, the facility is to be secured by a letter credit or bank guarantee or guarantee from government or promissory note from government. An undertaking letter from the central bank of the country regarding prompt release of exchange towards receivables may also be required.

EXIM Bank will directly enter into an agreement with the overseas borrower outlining the terms and conditions of the credit covering the export contract.

2. Lines of credit:

EXIM Bank extend line of credit to overseas governments or agencies nominated by them, to enable buyers in these countries to Import capital/engineering goods from India on deferred credit terms. This facility enables Indian exporters to offer deferred credit to customers in these countries, as per terms and conditions already negotiated between EXIM Bank and the overseas government. The exporter can obtain payment from EXIM Bank against negotiation of shipping documents, without recourse to the exporters.

The lines of credit are denominated in convertible foreign currencies or Indian rupees and extended to sovereign government/agencies nominated by them or financing institutions. Such governments/agencies are deemed to be the borrowers with EXIM Bank as the lender. Term and conditions of different lines of credit are subject to variation and particulars can be obtained for each line of credit from EXIM Bank. It would also need to be ascertained from time to time that the lines of credit have come into effect and are available for utilisation.

The buyer arranges to comply with procedural formalities as applicable in his country and then submits the contract to the borrower for approval. The borrower in turn forwards copies of the contract to EXIM bank for approval.

The EXIM bank advises approval of the contract to the copy to the exporter. The buyer, on advice from the borrower, establishes an irrevocable letter of credit and advises it through a bank in India designated by EXIM bank.

On shipment the exporter submits the documents to the designated bank for negotiation. Bank forwards documents to the buyer and copies of the documents to EXIM bank. EXIM bank reimburses the eligible value to the negotiating bank for onward payment to the exporter. It then debits the borrower's account and arranges to collect interest and principal receivable on due dates under the terms of the line of credit agreement between EXIM bank and the respective government agency.

3. Re-Lending Facility:

Credit is made available to overseas bank s for their lending to importers of capital goods from India. Overseas banks thus would intermediate between foreign buyer and EXIM bank, who intermediates with the supplier.

The borrowing bank may be a commercial bank, a central bank, an investment bank or merchant bank of a country with a good credit standing. The loan made by these banks to the importers should be for import of capital goods/equipments and/or services from India. The credit limit for each bank would normally be USD 5-10 million and may be raised to USD 15 million in select cases.

The loan is extended up to 85% to 90% of any single contract. The limit sanctioned should be availed of within 1 year from effective date of agreement. The repayment period may vary from 2 to 5 years including a moratorium of 6 months to 1 year. The currency of the loan is US dollar and requirement should be in the same currency. The minimum value of contract should be USD 1 lakh.

The borrowing bank will make sub-loan, within its own discretion in developing countries with which India has trade relations. Repayment period of sub-loan should be in conformity with the loan. Interest rate charged by the borrowing bank is to be not higher than 1% above the loan interest rate, unless EXIM bank agrees otherwise. The borrowing bank will take the political and credit risk on the end borrower.

NON-LENDING SERVICES

Guaranteeing Services

Apart from extending credit, an important and usual service rendered by commercial banks to exporters is that of issuing various guarantees. Bank

bank or the government of the importers country that in the eventually of the exporter not fulfilling the conditions of the contract, the bank would compensate them for the loss, subject to the maximum amount specified in the guarantee.

Thus the bank guarantee is an assurance to the importer that the exporter would be able to execute the contract of the standard required and within the time specified. If the exporter fails, the importer is compensated for the loss incurred by such failure.

The bank safeguards the importer by issuing guarantee in his favor. It secures its own position by getting an undertaking from the exporter on whole behalf the guarantee is issued that in case the bank is made to pay under the guarantee he should indemnify the bank of the loss. This undertaking from the importer is known as the counter guarantee.

The rationale of a bank guarantee is similar to that of the letter of credit. The importer and the exporter may not know each other so well. The bank's promise in the form of a guarantee assures the importer that the contract terms would be fulfilled. The importer relies on the superior credit of the bank when he entrusts the work to the exporter. For the exporter too the bank guarantee is useful as he is enabled to get the contract which may not be possible for him without the guarantee. Exim Bank participates with commercial banks in India in the issue of guarantees required by Indian companies for the export contracts and for execution of overseas construction and turnkey projects. EXIM bank issues guarantees on behalf of exporters of construction and turnkey projects. EXIM bank issues following guarantees directly or in participation with other commercial banks, for project export contract:

TYPES OF GUARANTEE

An export contract may run into various stages:

i. Acceptance of the contract by the exporter,

ii. Actual supply/ erection of the machinery, etc., and

iii. Proper functioning of the machinery for a minimum period. Various types of guarantee have been evolved to cover these aspects separately.

1. Bid bond guarantee

The importer, in the case of construction contracts and turnkey projects and other contracts involving huge amount may have to participate in global tenders. To participate in the global tenders the contractors are require to furnish bank guarantees for the value of about 5% of the contract amount. Under the bid bond guarantee, the bank under takes to pay the amount fixed under the guarantee if the contract is allotted to the contractor but he fails to take it up. Thus bid bond guarantee assures the importer that only those contractors with reasonable means and capacity to execute the work participate in the tender and the contracts would be taken up by the bidder when allotted to them. The bid bond is normally issued for short periods of 3 to6 months and is terminated on the contractor taking up the contract or the expiry of the period. Bid bond guarantee is also know as tender bond guarantee.

2. Performance guarantee

If the contract is award to the contractor ha would be required to furnish a guarantee whereby his execution of the contract as per terms and condition agreed is guaranteed. The value of the contract should normally be about 10% of the contract amount. The importer is thus assured that the exporter would execute the contract of the same standard an-d specification as agreed and in the specific period. The liability of the issuing bank under this guarantee is normally to meet the financial obligations up to the amount guaranteed in the case of failure the contractor and a claim being preferred on the bank. In some countries the obligation of the issuing bank may be too arrange for the performance of the contract, instead of monitory payment.

3. Advance payment guarantee

Some contracts may provide for payment by the importer of some advance amount to the exporter to enable him to execute the contract. In such cases the exporter may require a bank guarantee that the amount of advance would be repaid to the exporter if the contract could not be fulfilled by the exporter. The difference between the performance guarantee and the advance payment guarantee is that in the former the bank undertakes to pay up to a certain percentage of the contract amount on the failure of the exporter. In case of advance payment guarantee, the exporter has received some advance and the amount equivalent to this will be paid by the Bank to the importer in case of exporter's failure. Advance payment is also known as **repayment guarantee.**

4. Retention money

Many of the turnkey projects and construction contracts provide that the part of contract amount be retained by the importer to be paid after a period during which time the roper functioning of the work executed could be verified by him. For example, the contract may provide that on completion of the contract 95% of the contract amount be paid to the exporter. The balance 5%would be paid to him after a period of, say, 6 months, during which time the importer would be watching the performance of the work executed to verify that it is of the required standard and does not develop any problem. If this condition is satisfied the 5% amount retained would be paid to the exporter. Otherwise, it would be forfeited. As an alternative arrangement, contract may provide for payment of 100% of the contract amount on its execution and furnishing of the bank guarantee which provides that in case the work executed is found to be defective within the specific period the bank would pay the specific percentage of the contract amount to the importer. This guarantee secures release if retention money to the exporter is known as the retention money guarantee.

5. Guarantee for Raising Borrowings Overseas

Bridge finance may be needed at the earlier phases of the contract to supplement the mobilization advance. Bridge finance up to 25% of the contract value may be raised in foreign currency from an overseas bank against this guarantee issued by a bank in India. Request for overseas borrowings must be supported by currency-wise cash flows, also indicating the outstanding letters of credit and L/c drawl schedule.

Other Guarantees: In lieu of customs duty or security deposit for expatriate labour, Exim Bank participates with commercial banks in India in the issue of guarantee.

PROMOTIONAL ACTIVITIES

Multilateral agencies Funded Projects Overseas (MFPO):

Exim Banks provides information and support services to Indian companies to help improve their prospects for securing business in multilateral agencies funded projects through:

- Dissemination of business opportunities in funded projects.
- Providing detailed information on projects of interest.
- Information on Procurement Guidelines, Policies Practices of Multilateral Agencies.
- Assistance for Registration with Multilateral Agencies.
- Advising Indian companies on preparation of Expression of Interest.
- Capability Profile.
- Bid Intervention.

Promoting Indian Consultancy

Exim Bank encourages Indian consultants to gain and enhance their international exposure by assisting them in securing assignments overseas. Assignments are awarded under programme sponsored by International Finance Corporation (IFC) in Washington to promote private sector development in select countries and regions. Arrangements set in place cover:

- Africa project Development Facility
- African Management Services Company
- Africa Enterprise Fund
- South-east Europe Enterprise Development Facility
- Mekong project Development Facility
- Business Advisory and Technical Assistance Services
- Other Technical Assistance & Trust Funds

Exim Bank assists these agencies in the recruitment of Indian consultants and meets the professional fees of the consultant selected by IFC. Consultancy assignments undertaken comprise Pre-feasibility studies, project and investment related services, management information systems, operations and maintenance support mainly for Small and Medium Enterprises in a variety of sectors like agriculture, agro-Industry, consumer goods, light engineering, telecom.

ROLE OF ECGC IN PROJECT EXPORTS

EXPORT CREDIT INSURANCE

International trade is highly competitive To be successful, an exporter has to offer good quality material at competitive prices and longer and liberal terms of credit to importers. At the same time, selling in international markets is

highly risky. Some of the risks are in common with those involved in internal trade. Some risks are aggravated in or are peculiar to international trade.

Two major risks in international trade are:

(i) risk of loss of or damage to the goods, and (ii) risk of non-realisation of export proceeds. The former is a risk which is covered by general insurers (under marine insurance). The latter risk is the financial risk or credit risk which not covered by general insurer.

Non-receipt of export proceeds may be due to failure of the buyer to accept and/or pay for the goods. This is known as commercial risk. Non-realisation may also be due to reason beyond the control of the buyer. Such difficulties may be attributed to political and economic changes. An outbreak of war or civil war may block or delay the payment for goods exported. Economic difficulties or balance of payments problems may lead a country to impose restrictions on either import of certain goods or on transfer of payments for goods imported. The loss on account of these risks may spell disaster for any exporter. Nevertheless, too cautious an approach by the exporter in evaluating risks and selecting buyers may result in loss of hard-to-get business opportunities. It is in the broader interests of the country too that exports should be encouraged. The need, therefore, arises for a scheme of export credit insurance designed to protect exporters from the consequences of payment risks, both political and commercial, and to enable them to expand their overseas business without fear of loss. In India, the export risks insurance corporation (ERIC) was set up by the government of India in July 1957 to undertake this function.

While the policies issued by ERIC provided adequate cover to exporters, it was thought that its functions should be extended. Encouragement to exporters consisted not only in affording protection against credit risks, but also in facilitating their getting timely and liberal credit facilities from banks. The availability of policies to the exporter was indirect benefit to banks and should encourage their lending to exports sector. But this incentive was not thought to be sufficient to prompt the flow of bank finance to exports. As a direct encouragement to banks, guarantees were begun to be issued in their favour. The guarantee, fundamentally, protects the bank against failure of the exporter to repay the bank advance. Consequently, the FRIC was transformed into Export

Credit and Guarantee Corporation Ltd., in 1964. it has since been renamed Export Credit Guarantee Corporation of India Ltd.,

ECGC is a company wholly owned by the government of India. It functions under the administrative control of the ministry of commerce and is managed by a Broad of Directors representing Government, banking, insurance, trade, industry, etc. With the liberalization of the insurance sector, export credit insurance is now being offered by general insurance companies also. But their impact is yet to be felt. Similarly, ECGC is also expanding its activities and is now offering maturity factoring.

SPECIFIC POLICIES

Contracts for export of capital goods or turnkey projects or construction works or rendering services abroad are not of a repetitive nature. Such transactions are, therefore, insured by ECGC on a case-to-case basis under specific policies. Exception to the general arrangement that standard policy is for short term exports and specific policies are for long term exports is the new specific shipment policy (short term) available on individual shipment basis covering short term exports.

1. Specific shipment policy (short term)

Specific shipment policy (short term) offers to cover one or more shipments only under a particular contract. Option is available to cover both commercial and political risks and only political risks. The risks covered are the same as under the standard policy. A separate policy is available to cover shipments made letter of credit against the risks of insolvency and default of the L/C opening bank and political risks. The percentage of cover is 80.

This policy cover can be availed of by exporters who do not hold the standard policy or even by those holding it to cover the shipments specifically permitted to be excluded from the purview of the standard policy.

2. Specific policy for supply contacts

Specific policy for supply contracts covers exports of commodities for period beyond 180 days. The policy may take any of the following four forms:

Specific shipments (comprehensive risks) policy-to cover both commercial and political risks at the post-shipments stage:

Specific shipments (political risks) policy- to cover only political risks at the post-shipments stage in cases where the buyer is an overseas government or payments are guaranteed by a government or by banks, or are made to associates.

Specific contract (comprehensive risks) policy: and Specific contract (political risks) policy.

Contracts policy provides cover from the date of contract. Losses that may be sustained by an exporter at the pre-shipment stage due to frustration of contract are covered under this policy in addition to the cover provided by the shipments policy.

3. Insurance cover for buyer's credit & lines of credit

Financial institutions in India, like those in several other countries, lend directly to buyers or financial institutions in developing countries for importing machinery and equipment from India. This kind of financing facilities immediate payment to exporters and frees them from the problems of credit management as well as from the fear of loss on account of overseas credit risks.

Financing may take the form of buyer's credit or line of credit. Buyer's credit is a loan extended by a financial institution, or a consortium of financial institutions, to the buyer for financing a particular export contract. Under lines of credit, a loan is extended to government or financial institutions in the importing country for financing import of specified items the lending country.

ECGC has evolved schemes to protect financial institutions in India which extend these types of credit for financing exports from India. Insurance agreement will be drawn up on a case-to-case basis, having regard to the terms of the credit.

4. Services policy

When Indian firms services to foreign parties they would be exposed to payment risks similar to those involved in export of goods. Services policy offers protection to Indian firms against such payment risks. The policy has been designed broadly on the lines of ECGC insurance policies covering export of goods: (a) specific services contract (comprehensive risks) policy to cover commercial as well as political risks: (b) specific services contract (political risks) policy to cover political risks only. Where the contracts are with the

overseas governments or payments are guaranteed by overseas governments or payments are guaranteed by overseas governments or are covered by bank guarantees/letters of credit, or are to associates, political risks policies are issued.

A wide range of services like technical or professional services, hiring or leasing can be allowed under the policies.

The comprehensive risks policy covers the following risks:

- The insolvency of the buyer
- Protracted default in payment
- Restriction on remittances in the buyer's country or any government action which may block or delay payments to the exporters:
- War between India and the buyer's country
- Revolution or other civil disturbances in the buyer's country
- Government action in India or in buyer's country which prevents the performance of the contract: and
- Any other case of loss occurring outside India and beyond the control of the buyer or the seller.

The policies do not cover losses arising from events preventing the completion of the contract in circumstances where such frustration could free the buyer from his obligation to make payment under the contract.

The policy covers 90 per cent of the loss suffered by the seller. The claim. is payable after four months from the due date of the payment if the loss arises due to the risk of protracted default. In case of insolvency, claim is payable after four months from the due date of payment or one month after the loss is admitted to rank against the insolvent's estate whichever is earlier. It is payable after four months from the due date or the date of the event which is the cause of loss, as the case may be, if the loss is caused by any of the other risks.

Premium rates are closely related to the risks involved and vary according to the country of the buyer and the terms of payment.

The services policy covers such contracts under which only services are to be rendered. Contracts under which rendering of services is part are covered under construction works policies.

5. Construction works policy

ECGC's construction works policy covers civil construction jobs as well as turnkey projects involving supplies and services. It provides cover for all payments that fall due to the contractor under the contract.

Two types of policies have been evolved to cover contracts with (I) private buyers. The former covers political risks in respect of contracts with overseas governments or where the payments are guaranteed by government. The latter covers comprehensive risks. In case of contracts with private employers, the policy may be issued to cover only political risks if the payments risks are guaranteed by a bank or covered by letter of credit.

The following risks are covered in case of contracts with government's employers of if the payments are guaranteed by the employer's government:

- Default of the government employer
- Delay in the transfer of payment to India
- War between India and the employer's country
- Civil war or similar disturbances in the employer's country
- Imposition of import or export licensing(or cancellation of an existing license) for goods or material manufactured or purchased by the contractor after the date of contract, for use on the contract, and for which on the date of loss the buyer has no obligation to pay in terms of contract:
- Additional handling, transport or insurance charges due to interruption or diversion of voyage: and
- The employer's failure to pay to the contractor sums awarded in arbitration proceedings under the contract.

The percentage of loss [payable by ECGC in 85 under policies issued to cover contracts with government employers and 75 in case of policies covering contracts with private employers.

The policy is issued on the basis of estimated basic contract price, estimated interest and other payments due under the contract. Premium is payable at the outset on the estimated figures. Proportionate refund of premium is allowed where the actual contract price and interest charges fall below the estimate.

Cover can also be provided for the contractor's equipments (such as cranes, bulldozers and trucks which are used for construction) against the risk of confiscation, by means of an endorsement to the policy if the contractor so desires.

6. Overseas Investments Insurance

ECGC has evolved a scheme to provide protection for involvement of exporters in capital participation in overseas projects. Any investments made by way of equity capital or untied loan for the purpose of setting up or expansion of overseas projects will be eligible for cover under investments insurance.

The investments may be either in cash or in the form of export of Indian capital goods and services. The cover would be available for the original investment together with annual dividends and interest payable.

The risks of war, expropriation and restriction on remittances are covered under the scheme. As the investor would be having a hand in the management of the joint venture, no cover for commercial risk would be provided under the scheme. For investments in any country to qualify for investment insurance there should preferably be a bilateral agreement protecting investment of one country in the order or, in its absence, an investment protection code. ECGC may consider providing cover in the absence of any agreement of code, provided it is satisfied that the general laws of the country afford adequate protection to the Indian investment.

The period of insurance cover may be extended for period of 15 years. In case of projects involving loan, erection period cover may be extended for a period cover may be extended for a period of 15 years from the date of completion of the project subject to a maximum of 20 years from the date of commencement of investment. Amount insured shall be reduced progressively in the last five years of the insurance period.

OII provides cover for the investments made by Indian corporates abroad in a joint venture or their wholly owned subsidiary (WOS) either in the form of equity or loan. The Government of India or RBI should approve the JV. The basic principle is that the investment should emanate from India and benefit of dividend/interest there from should accrue to India. The investment should not in any way conflict with the policy of both our government and the overseas government. Normally, there should be a bilateral agreement between India and

the host country for promotion and protection of Indian investment. Any fees payable towards technical know-how, consultancy or management services etc., and agreed to be converted into capital will be considered for cover at the discretion of the Corporation.

Loans: Loans advanced by way of a formal agreement but not tied to export of goods and supplies are eligible for cover. Any 'suppliers/buyers' credits and lines of credit extended to support sale of goods or services from India may be covered under the appropriate insurance schemes of the Corporation and not under investment insurance.

Dividend and profit: In case of equity the investor can choose to cover the original investment as well as his share of retained earnings and dividends declared, to the extent they are eligible for repatriation. Cover on account of original investment, retained earnings, dividend receivable and any additional investment will be subject a ceiling of 150 per cent of the original investment calculated as in the proceeding paragraphs. In case of loan, the insurance will cover the principal as well as interest actually earned.

Portfolio investment: Any investment in shares of overseas concerns not related to setting up, development and expansion of overseas projects would not be eligible for cover under the investment insurance.

Additional investment: Additional investment can be covered subject to a ceiling of 50 per cent of the original investment. Any additional investment out of retained earnings should have been made by formal capitalisation and for the purpose of expansion for development of the enterprise. If the additional investment is made out of retained profits, which are not eligible for repatriation, such an investment will not be eligible for cover. Initially, cover is issued for three years. On expiry of the three years it is at the option of the exporter to renew the cover/review of the JV/WOS by ECGC. The duration of insurance cover shall not normally exceed 15 years but extension can be given up to 20 years for longer projects. The amount of investment eligible for cover shall be to the full extent during the first 10 years of cover. Percentage of cover is 90-can be reduced. The amount of investment eligible for cover will be reduced to 90 per cent, 80 per cent, 70 per cent, 60 per cent and 50 per cent, respectively, of the original investment during the 11th, 12th, 13th, 14th and 15th years of insurance. OII provides cover for original investment retained earning, dividend receivables and additional investment up to 50 per cent of the original investment. Cover for

dividend receivables may not be given in case of risky countries; cover only for original investment. OII covers only political risks of war, expropriation and restrictions on remittances.

Premium rate: Base rate: 1 per cent of the investment value. Actual premium rate will depend on the size of investment, country of investment, previous experience of the Importer etc. The exporter has to furnish the proposal form along with a fee of 1 per cent of the investment amount subject to a ceiling of Rs 25,000. If cover is agreed application fee paid shall be adjusted towards premium payable. In case the application for insurance is rejected, half the fee paid shall be refunded. Premium is taken upfront. Income from the premium is allocated over the tenor of the cover extended. Installment facility is provided by ECGC for collecting premium after analysing and approving the proposal. ECGC enters into agreement with the exporters for providing cover mentioning the terms and conditions along with the maximum liability. The exporters have to submit annual reports about the progress and working of the projects.

7. Exchange Fluctuation Risk cover schemes

The exchange fluctuation risk cover schemes are intended to provide a measure of protection to exporters of capital goods, civil engineering contractors and consultants who have often to receive payments over a period of years for their exports, construction work or services. Where such payments are to be received in foreign currency, they are open to exchange fluctuation risk and the forward exchange market does not provide cover for such deferred payments.

The exchange fluctuation risk cover is available for payments scheduled over a period of 12 months or more, up to a maximum of 15 years. Cover can be obtained from the date of bidding right up to the final installment.

At the stage of bidding, an exporter/contractor can obtain excnange fluctuation risk (Bid) cover. The basis for cover will be a "reference rate" agreed upon. The reference rate can be the rate prevailing for a period of twelve months and can be extended, if necessary. If the bid is successful, the exporter/contractor is required to obtain exchange fluctuation (contract) cover will be either the reference rate used for the bid cover if the rate prevailing on the date of contract, at the option of the exporter/contractor refunded to him.

The exchange fluctuation risk (contract) cover can be issued only in the payments under the contract are scheduled to be received beyond 12 months

from the date of contract but in such cases, the cover will apply for any installments falling due within 12 months as well . Cover will be available for all amounts receivable under the contract, whether it is payment for goods and services or interest or any other payment. Contracts coming under buyer's credit and lines of credit are also eligible for cover under the schemes. The exporter has also an option to terminate the contract at expiry of the third year, by giving three months 'advance notice.

Cover under the schemes is available for payments specified in US Dollar, Pound-Sterling, Euro, Japanese Yen, Australian Dollar, UAE Dinar and Swiss Franc. However, cover can be extended for payments specified in other convertible currencies at the discretion of the ECGC.

Exchange fluctuation risk cover will normally be provided along with suitable credit insurance cover. There is, however, provision to grant the cover independently also.

The contact cover provides a franchise of two per cent. Loss or gain within a range of 2 per cent of the reference rate is to the exporter's account. If loss exceeds 2 per cent, ECGC will make good the portion of loss in excess of 2 per cent but not exceeding 35 per cent of the reference rate. In other words, losses up to 2 per cent and beyond 2 per cent and up to 35 per cent will be turned over to the exporter's account. If there be a gain in excess of 2 per cent of the reference rate, the portion which is beyond 2 per cent up to 35 per cent will be turned over to the ECGC.

The scheme has been extendea to cover export-linked import transactior and advance payments for exports on terms similar to the above. The cover is issued for the entire period of transaction subject to a maximum of 10 years. The rate of premium is 40 paise per Rs. 100 per years.

GUARANTEES TO BANKS

ECGC's guarantees protect the banks from losses on account of their lending's to exporters. These guarantees have been designed to encourage banks to give adequate credit and other facilities for exports, both at pre-shipment and post-shipment stages, on a liberal basis.

ECGC offers following types of guarantees to provide for varying requirements of bank. They are:

1. Packing credit guarantee;
2. Export production finance guarantee:
3. Post –shipment export credit guarantee:
4. Export finance guarantee
5. Export performance guarantee
6. Export finance (overseas lending) guarantee and
7. Transfer guarantee

1. Packing Credit Guarantee

This guarantee covers advances granted to exporters at the pre-shipment stages for the purpose of manufacture, processing and/or packing of goods meant for export against firm contracts of sale, whether on credit terms or against irrevocable letters of credit. Advance given by banks to Indian firms engaged in export if services or to those which take up construction work abroad to meet preliminary expenses in connection with such contracts are also eligible.

The guarantee protects the bank against failure of the exporter to repay the advance because of his insolvency or protracted default to repay. The guarantee covers advances made by the bank over a period of time, normally a year. On or before tenth of every month, the bank has to submit to ECGC a declaration of credits granted and repayments received during the previous month. The premium is payable at 10 paise per Rs 100 per month or part therefore on the basis of monthly declarations on the highest amount outstanding on any day during the month.

ECGC bears loss to the extent of 66 2/3% subject to a maximum liability fixed under the guarantee. In case of guarantees on account of advances not exceeding Rs. 2 lakhs granted to small merchant exporters ECGC's share is 90% of the loss.

2. Export Production Finance Guarantee

This purpose of this guarantee is to enable banks to sanction advances at the pre-shipment stage to the full extent of cost of production when it exceeds the FOB value of the contract/order, the difference representing incentive

available. The extent of cover and the premium rate are the same as of packing credit guarantee.

3. Post-shipment Export Credit Guarantee

Post-shipment finance given to exporters by banks through purchase, negotiation or discount of export bills or advances against such bills qualifies for this guarantee. It is necessary, however, that the exporter concerned should hold suitable policy of ECGC to cover the overseas credit risks.

The premium rate for this guarantee is 7paise per Rs.100 per month. The extent of loss covered is 75%.

This guarantee can also be had, even where an exporter does not hold an ECGC policy for finance granted against L/C bills, provided that the exporter makes shipments solely against L/Cs. The premium rate is 10 paise for Rs 100 per month on the highest amount outstanding on any day during the month. Cover is 75% advances against bills under L/Cs opened by banks in countries placed under restricted cover is subject to prior approval of ECGC.

4. Export Finance Guarantee

This guarantee covers post-shipment advances granted by banks to exporters against incentives receivable in the form of cash assistance, duty drawback, etc. the premium rate is 7 paise per Rs 100 per month and the cover is 75%.

5. Export Performance Indemnity

The indemnity which is in the nature of a counter guarantee is issued to the exporter's bank to protect against losses that it may suffer on account of guarantees given by it on behalf of the exporters.

The cover is available for such guarantees as bid bond guarantee, performance guarantee, advance money guarantee, retentions money guarantee, and guarantee to a foreign bank for finance raised overseas. In case of participating in foreign tenders: guarantees issued for obtaining import licenses with export obligations: guarantees to customs for clearing goods without payment of duty: guarantee in respect of export obligation to export promotion councils, commodity boards, the state trading corporation of India, the minerals and metals trading corporation of India, or recognized export houses.

Normally cover is extended up to 75% of loss, but in the case of guarantees in connection with bid bonds, performance bonds, advance payment and local finance guarantees and guarantees in lieu of retention money, the cover may be increased up to 90% subject to proportionate increase in premium.

The premium rate for indemnity issued to cover bonds relating to exports on short-term credits is 0.9% p.a. for 75% cover and 1.08% for 90% cover. For bonds, relating to exports on deferred credit and projects the rate of premium is lower at0.8% p.a. for 75% cover and 0.95% p.a. for 90% cover.

6. Export Finance (Overseas lending) Guarantee

If a bank financing an overseas project provides a foreign currency loan to the contractor. It can protect itself from the risk of non-payment by the contractor by obtaining Export Finance (overseas lending) guarantee. Premium rate will be 90 paise per annum for 75% cover and Rs 1.08 per annum for 90% cover. Premium is payable in Indian Rupees. Claims under the guarantee will also be paid only in Indian rupees.

7. Transfer Guarantee

This guarantee seeks to safeguard the banks on the confirmation they might add to letters of credit opened by banks abroad in favour of Indian exporters. The guarantee covers risks of:

1. Insolvency of the opening bank
2. Failure of the opening bank to pay within four months from the due date of payment:
3. Operation of law which prevents restricts or controls transfer of the amount of the credit of India, in circumstances outside the control of the opening bank and confirming bank;
4. Occurrence of war between the country of opening bank and India. Occurrence of war, hostilities, civil war, rebellion, insurrection or other disturbances in the country of the opening bank.

The guarantee covers 75% of the loss in respect of risks (1) and (2) and 90% for risks (3) to (4).

The premium charges will normally be at the rates applicable under the ECGCs insurance policy covering export of goods. The actual rate will depend to be covered.

NEW INITIATIVES

ECGC has since revised its premium structure providing substantial reduction in the rates both for short term as well as for medium and long-term contracts. This will go a long way in providing cost-effective credit insurance support to project exporters, which in turn will enable them to compete effectively for international tenders. Installment facility in payment of premium, that too without charging interest, is another welcome step being initiated. In order to increase project exports and to encourage project exporters, the Government of India has initiated various steps. Institutions like ECGC and Exim Bank are being strengthened to provide adequate support to project exporters. A national export insurance account is being mooted to facilitate credit insurance support on government account. The government is also considering increasing the capital base of ECGC so as to enhance its underwriting capacity.

Review Questions:

1. Describe in detail the role of EXIM Bank as an apex organization in financing Project Exports from India.
2. Describe in detail the role of ECGC in promoting Project Exports from India.

* * *

UNIT IV

INDIAN CONSULTANCY EXPORTS

Learning Objective: To gain an overall idea about Consultancy Exports from India and growing importance of service imports in International Business.

Introduction

Global export of services has increased at a faster pace than merchandise exports. India has been globally recognized for its fast paced development. The service sector has been growing at a fast pace and now contributes more than 50% to the GDP. India's commercial services exports totalled US$ 20.1 billion in 2001 registering a growth rate of 14%, next only to Ireland at 15%. India's share in exports of commercial services also improved to 1.4% in 2001 from 1.2% in the previous year. All these figures clearly indicate the immense opportunities that services exports hold for India. At the heart of the exceptional growth of export services lie software exports. The Indian software industry, which has grown at an amazing pace, is a successful player in the international software market and enjoys the benefit of a good reputation, auguring well for future growth. During 2001-02, software exports from India amounted to US$ 7.8 billion, registering an impressive 25.8% increase over 2000-01 and are projected to grow further to US$ 9.6 billion in 2002-03 (Source: NASSCOM).

BACKGROUND

Service contracts involving provision of personnel and/ or furnishing of know-how and skills are categorized as consultancy projects. These cover a wide range including management contracts of industrial plants, hospitals, hotels, oil exploration, charter hire of rigs and locomotives, supervision of erection of new plants, CAD/ CAM solutions in software exports, finance and accounting systems. Indian consultants have demonstrated capability to provide and match international competition across various sectors.

These include:

- IT and IT enabled services
- Power
- Transportation
- Water Supply

A study carried out by Exim India on Engineering Consultancy Exports, has noted a significant wage based cost advantage in engineering and technical personnel. Indian engineers also carry high reputation, with world-class productivity levels.

SNAPSHOT OF CONSULTANCY CONTRACTS

Consultancy Contracts:

Services contracts, involving provision of know-how, skills, personnel and training are categorised as consultancy projects. Typical examples of services contracts are: project implementation services, management contracts for industrial plants, hospitals, hotels, oil exploration, charter hire of rigs and locomotives, supervision of erection of plants, CAD/ CAM solutions in software exports, finance and accounting systems.

Management consultancy includes services contracted for and provided to organizations by specially trained and qualified persons, who assist in an objective and independent manner, the client organization to identify management problems, analyze such problems, recommend solutions to these problems, and help, when requested, in the implementation of solutions.

Engineering consultancy is defined as application of physical laws and principles of Engineering (The application of scientific principles to practical ends as the design, construction, and operation of efficient and economical structures, equipment and systems) to a broad range of activities in the areas of construction, manufacturing, mining, transportation and environment.

Types of Consultancy Organisations

Since the origin of consultancy, the firms have been characterized by diverse functional areas such as engineering, accounting, law, or banking. Consulting organizations are generally classified as Management consultancy organizations, Engineering consultancy organizations and others which include Legal consultancy organizations, Socio Economic consultancy organizations and financial consultancy organizations.

Clients

Most consultancy assignments originate with the request from the client. A useful technique for identifying the real decision-maker early in the project is to propose several reasonable outcomes for the client's problem.

The response to these reasonable ideas indicates whether or not the consultant is dealing with the real client, the decision-maker. In consulting sector, the clients are broadly classified into different categories i.e. Government institutions, funding agencies (Bilateral Agencies and Multilateral Agencies), corporate clients and others like Non Government organisations.

Drivers for Consulting Services

The demand for consulting services tends to increase with the economic development of the country. The requirement for consultancy services stems from a diverse range of clients, largely governed by the large corporate sector and the Government in various forms, viz, country, institutions, bilateral / multilateral agencies.

Indian Consultancy Industry

After Independence, the Indian Government had focused on investment in core industrial sector and infrastructure. The investment in these sectors attracted various construction and engineering companies to explore the business opportunities and contribute their expertise in these sectors. Domain experts were required who could provide their core skill and competence in designing and building the core industry, dams, roads, buildings etc.

Over the years, as the Indian industry started maturing, the Indian consulting industry also started expanding, not only in terms of size, but also in terms of the service offerings. Over the period, specialist consulting advice was being sought by clients in India and this opened the opportunity for a number of specialist organizations to draw on their specialist knowledge base and resources to meet the demand for specialist consulting services.

Size of the Consultancy Sector in India

The development of consultancy capabilities and business is directly proportional to growth in economic and industrial development. Due to the nature of the industry, getting accurate estimates of its size is difficult. It is estimated that the consultancy business in India engages about 100,000 persons in about 5000 consulting firms. According to estimates, the current size of the consulting industry in India is about Rs. 10,000 crores including exports and is expected to grow at a CAGR of approximate 25% in the next few years.

Sectoral Coverage / Services

The nature of consultancy services varies in its content and extent. The Reserve Bank of India classified management and engineering services under other Business Services as per WTO classification which is indicated in their publication 'India's invisibles'. Given the recent spurt in contributions from the services sector, efforts are underway to provide accurate estimates of the services industry size, however such efforts may not offer the expected results, since the consulting industry by nature is very diverse and encompasses a wide array of services and sectors. Many of the services and sectors overlap and it is not possible for accurate estimation.

TURNKEY CONTRACTS

Turnkey projects involve supply of equipment along with related services and cover activities from the conception stage to the commissioning of a project. Typical examples of turnkey projects are: supply, erection and commissioning of boilers, power plants, transmission lines, sub-stations, plants for manufacture of cement, sugar, textiles and chemicals. **Such contracts involve supply of equipment, along with related services like design, detailed engineering, civil construction, erection and commissioning of plant.** During the decade (1990-2000) 665 bids valued at Rs. 70,666 crores were submitted, which accounted for 52% by number and 69% by value of the total bids submitted during the decade. Out of the 665 bids submitted, 173 bids valued at Rs. 9,257 crores were secured, which represented a success rate of 26% number wise and 13% value wise. The service component is embedded in Turnkey Contracts. Hence Turnkey contracts and Consultancy contracts go hand in hand. However Consultancy exports as separate entity is emerging as a promising sector in the recent years.

EXPORT PERFORMANCE OF THE INDIAN CONSULTING INDUSTRY

Consultancy contracts involve deployment of personnel, furnishing of know-how/skills operation and maintenance services and management contracts. An analysis of the consultancy contracts secured by Indian project overseas has been carried out by Exim Bank of India. As per the analysis, the geographical dispersion of contracts secured during 1995 – 96 to 2000 – 01 indicates that 200 consultancy bids valued at Rs. 6345 crores were submitted, accounting for 16%

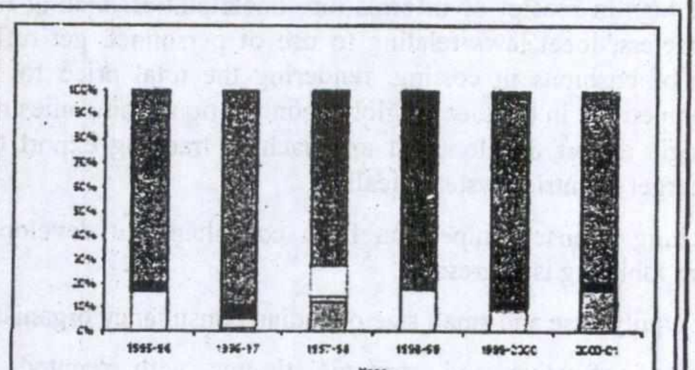
by number and 6% by value of the total bids submitted during the period. Out of these, 120 bids valued at Rs. 2988 crores were secured with an aggregate success rate of 60% by number and 47% by value during the decade. These consultancy contracts were secured largely in West Asia which accounted for 39% number wise and 46% value wise followed by South East Asia and Pacific & South Asia. South East Asia constituted 22% both by number and by value whereas South Asia was 18% number wise and 16% value wise. According to the 2002 data of the Federation of Indian Export Organizations (FIEO), India's share in global trade in services was about 1.3%. India's share of consultancy exports is about 0.5% of global trade in services.

Consultancy Contracts secured by Indian Project Exporters:

An analysis of consultancy contracts secured by Indian project exporters overseas has been carried out by Exim India. These cover cases where consultancy firms have approached Exim India/ Working Group for post award approval as well as those cases which Exim India is aware of.

An analysis of the geographical dispersion of contracts secured during 1995-96 and 2000-01 indicates that consultancy contracts were secured mainly in West Asia.

Figure 8.1 Regionwise Distribution-Consultancy Contracts Secured



Keys: AE: America/Europe; NA: North Africa; SA: South Africa; SEA: South East Asia; Far East and Pacific; SSA: Sub Saharan Africa; W/A: West Asia

Competitiveness of Indian Consultancy Exports

International firms are larger in size and operate across countries which give them market access to these countries and also the opportunity to tap the market for consulting business. However Indian consulting organizations are growing with great pace to compete with international organizations.

Local presence in the countries benefits multinational organisations in liaisoning with clients in these countries with sustained business development resulting better prospecting record with large expenditure on business development when compared to Indian firms who largely depend on proactive business development in these countries at low business development cost.

INADEQUATE PRESENCE OF INDIAN CONSULTANTS OVERSEAS

Indian consultants do not have adequate presence in thrust markets. Consultants need to nurture contacts and develop strategic tie-ups to obtain information at an early stage. Higher success rate in securing consultancy contracts would have a multiplier effect for securing turnkey and construction contracts as well as supply contracts. Some constraints, perceived by project exporters in consultancy contracts include:

- Pricing, a major reason for loss of bids.
- Time lags in receipt of information, uncertainties relating to the project parameters, local laws relating to use of personnel, get reflected in the form of cushions in costing, rendering the total price for the contract uncompetitive in the face of global competition. Companies need to adopt strategic export development approach in tracking export opportunities and target countries systematically.
- Matching intense competition from consultants of developed countries where lobbying is aggressive.
- Low equity base and small size of Indian consultancy organisations.
- Lack of effective and strategic tie-ups with reputed international consultancy firms for prospecting in third countries.
- Need for increased investment in research and development. Most engineering consultancy companies from the developed world have a large capital base and invest heavily in research and development. The

much large R&D expenditure of companies in developed countries translates into substantial competitive strength for them.

Strengths and Weaknesses of Indian Consulting Industry

- The major strengths of Indian consulting organizations include professional competence, low cost structure, diverse capabilities, high adaptability and quick learning capability of Indian consultants.
- The major weaknesses of Indian consulting organizations, which has hindered the export growth of consulting sector in the country, are low quality assurance, low local presence overseas, low equity base, lack of market intelligence, low level of R&D

GLOBAL OPPORTUNITIES FOR INDIAN CONSULTANCY EXPORTS

Commonwealth of Independent States (CIS)

After the break-up of erstwhile Union of Soviet Socialist Republics (USSR), the Commonwealth of Independent States (CIS) was created in December 1991. The CIS unites the countries of Azerbaijan, Armenia, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajakistan, Turkmenistan, Uzbekistan and Ukraine. Emerging from the controlled soviet economy, the CIS countries are united in their quest for economic development.

Considering the consulting opportunities which would follow economic development initiatives in the region, this region has been selected for a study of the export potential for consulting services. For purpose of this study, two countries i.e. Kazakhstan and Turkmenistan have been selected and studied in details. The country profiles of both the countries are given in the following section.

Kazakhstan

Kazakhstan is a member of the CIS and an erstwhile member of the USSR. The capital of the country is Astana. Kazakhstan was one of the earliest and vigorous reformers among the countries of the former Soviet Union. In 2003 Kazakhstan's estimated GDP was US$30.8 billion, an increase of 9 % over 2002. Per capita GDP was US$1.794. Services contributed 54.8 %, industry 37.8 %, and agriculture 7.4 % to the GDP in 2004. According to 2004 estimates, the state revenues are US$8.67 billion and expenditure is US$8.968 billion.

Kazakhstan's current rate of inflation is 6.9 %, slightly higher than the 2002 rate of 6 %.

The sectors, which show maximum potential for consultancy services in Kazakhstan, are Geology and Mining Transportation, Telecommunication, Tourism Sector, Urban Development Sector, Health Sector and Energy Sector.

Turkmenistan

Turkmenistan, southwest of the former Soviet republics of Central Asia, is located on the eastern shore of the Caspian Sea.

In the early 2000s, the contribution of Turkmenistan's state-run agriculture sector to Gross Domestic Product (GDP) has increased under close state supervision.

The sectors which show maximum potential for consultancy services in Turkmenistan, include Geology and Mining, Construction, Health, Urban Development and Agriculture.

South-East Asia Region

Southeast Asia is located on the equator, which means almost the entire region falls within the humid tropics and covers an area of about 4,100,000 square kilometers.

For purpose of this study, two countries i.e. Indonesia and Vietnam have been selected and studied in detail. The country profiles of both the countries are given in the following section.

Vietnam

Vietnam is located in Southeast Asia, bordered by the Gulf of Tonkin and the South China Sea to the east, China to the north, Laos and Cambodia to the west, and the Gulf of Thailand to the south.

In 2004, Vietnam's GDP was US$227.2 billion. The national GDP has shown impressive growth and Vietnam is one of the fast growing economies in the region. Vietnam's economy is expanding at an annual rate of more than 7 % and is one of the fastest growing in the world. Agriculture had the dominant contribution in the overall GDP of the country. Its contribution has progressively decreased over the years with manufacturing taking the lead followed by services and agriculture.

The sectors, which show maximum potential for consultancy services in Vietnam, are Manufacturing (textile and garments), Energy (Power), Geology and Mining (Oil and gas), Agriculture and Rural Development, Transportation (Highways) and Tourism.

Indonesia

Indonesia is located in Southeast Asia. It lies between the Indian and Pacific oceans and between the continents of Asia and Australia, south of Malaysia and the Philippines, and northwest of Australia.

In 2004, the GDP was US$ 827 billion with average annual growth of around 5 %. Over the last three years, Indonesia has made remarkable progress in achieving macroeconomic stability, in reducing the economy's vulnerability, and in restoring external viability.

The sectors, which show maximum potential for consultancy services in Indonesia, include Geology and Mining (Oil and Gas), Manufacturing (Petroleum, Pharmaceuticals), Agriculture and rural development, Transportation (Ports and Railways) and Telecommunication.

East African Region

East Africa includes Kenya, Tanzania, Uganda, Rwanda, Ethiopia and Burundi. Geographically, the region is well known for its magnificent physical features. The region is witnessing economic development initiatives at various levels in a number of countries. Considering the potential for consulting opportunities Ethiopia and Uganda have been selected for the study. The country profiles of both the countries are given in the following section.

Uganda

Uganda is located in the heart of Sub Saharan Africa with one fifth of its area covered with fresh water (Lake Victoria).

In 2004, the GDP of Uganda was US$ 7.7 billion, with a real GDP growth of 5.9%.. Sector wise contribution to the GDP in 2004 was 38.8% in Agriculture and allied sector, 19.5% in Industry and 41.7% in services.

The sectors, which show maximum potential for consultancy services in Uganda, are Infrastructure, Energy, Education & IT enabled services, Agriculture and Rural Development, Manufacturing sector, Health and

Demography, Geology and Mining, Transportation, Energy and Information Technology.

Ethiopia

Ethiopia is located in eastern Africa in the southern Red Sea region. It borders Sudan on the west, Eritrea on the north, Djibouti and Somalia on the east, and Kenya on the south.

The sectors, which show maximum potential for consultancy services in Ethiopia, are Agriculture and Rural Development, Tourism , Manufacturing sector , Geology and Mining , Transportation sector , Energy, Water Management , Telecommunication ,Construction and Health.

ENGINEERING DESIGN OFFSHORE SERVICES

Introduction

Engineering Design offshore Services transfers ideas and designs into functional components that can be manufactured and marketed in a short time period The common composition of team for Engineering Design offshore Services include Design Leaders, Design Engineers, Program Managers, Detailers, Technicians, Specialist in Tooling and Die design & manufacturing. With this trend, Indian engineering design consulting organisations are increasingly looking to potential locations like USA, UK and Japan. Keeping this in view, these three countries have been identified for studying the export potential of engineering design services.

Engineering Design Offshore: The concept

The engineering design offshore requires the understanding of international projects and availability of IT infrastructure and engineering manpower.

Clients

The Clients for the engineering design offshore consultancy services include large international companies operating in the sectors of Engineering services, Automobile & manufacturing, IT and software who directly outsource their design and development requirements to have a competitive advantage of cost & benefits of different time zones.

Industry Drivers

The major drivers which are promoting offshore services from India include growth in Indian economy, excellent communication facilities, abundant Indian human resources, excellent advancement in outsourcing technologies, cost effectiveness and adherence to standard quality.

Size of the Indian Engineering Design Services

The engineering services organisations have keen interest to capture the design services from overseas due to their expertise in segments such as automotive, aerospace, engineering designs etc.

The total worldwide revenues for the engineering services are estimated at about $170 billion.

International Development Centre estimates that the worldwide market for outsourced engineering services was worth $69.8 billion in 2001, with a forecast to grow at a five-year compounded annual growth rate (CAGR) of 12.2 per cent, to $123.9 billion in 2006.

NASSCOM assesses that outsourced engineering services to India have a market potential of $7-12 billion. The present value of work undertaken by Indian vendors in ET services was about $500 million.

Services offered

Almost all design services such as preparation of component drawings & designing, operations process parameters, detailed engineering designs & drawings can be outsourced to India.

Competitiveness of Indian organizations

The five countries where major services are being off shored are India, Philippines, Canada, Ireland, and Russia. While Canada and Ireland are on the high cost side, Philippines, Russia, and India are the low cost end.

SWOT Analysis of Offshore Services

- The strength of offshore industry is its cost effectiveness, large pool of trained engineers, well established engineering industry, time zone

advantage for real time solutions, good IT infrastructure, reputed affordable IT education, English-speaking professionals, Government Incentives, Influx of talent from other educational streams.

- The weaknesses of offshore industry is the low promotion of Indian capabilities, lack of local presence of the Indian engineering industry, low level of knowledge on international standards and codes, non-adherence to contract schedules and deliverables, low lifestyle image in India, data security etc.

- The opportunities of offshore industry are India's edge in outsourcing market with its ability to combine skills with cost. India has a long history in the sector of automobiles and aerospace.

  These are the sectors where India has demonstrated its manufacturing capabilities. In addition, there is the presence of the local talent pool in the manufacturing sector. India perceives a situation where cross-functional teams — IT engineers understanding design capabilities and plant and process engineers trained in IT— will operate in this segment.

- The threats of offshore industry are China, which is likely to emerge as a strong competitor for India. China has demonstrated its capabilities as an offshore destination for manufacturing of automotives, cellular phones and consumer durables. European clients still prefer European consultants due to the locational advantage. The challenge faced by Indian companies operating in the engineering service markets is trained talent in the sector. Since the sector requires some practical knowledge which is normally not imparted by colleges, it is up to the various companies to train these individuals who are already well-versed in domain knowledge.

Engineering Outsourcing from United States of America

- US have market-oriented economy, where private individuals and business firms make most of the decisions, and the federal and state governments buy the required goods and services predominantly in the private marketplace.

- U.S. foreign trade and global economic policies have changed direction dramatically during the several years that the United States has been a country. The US economy though a lot better than other economies, faces some other long-term challenges.

- Outsourcing of engineering services from U.S. to low cost countries has been going on for many years, particularly in the oil and gas industry. Out sourcing services from US alone is estimated at US$ 1.6 trillion. The construction sector has a share of 15%.
- The outsourcing includes a wide range of services including design and architecture. Other services that lend themselves to outsourcing continue to be those that are of repetitive and data processing nature, such as Computer Aided Drafting (CAD), mapping and GIS.
- The potential manufacturing sectors wherein the offshore consultancy opportunities exist include Electronic design Automation, Automotive and Infrastructure.

Engineering Outsourcing from United Kingdom

- The United Kingdom is the world's leading trading power and financial centre. The economy of United Kingdom is the strongest in Europe and it was this relatively good economic performance that had complicated the government's efforts to join the European Economic and Monetary Union (EMU).
- The potential manufacturing sectors wherein the offshore consultancy opportunities exist include Aerospace, Construction, Automotives, Chemicals, Power, Oil & Gas and Engineering.

Engineering Outsourcing from Japan

- A member of OECD, Japan is the second largest economy in the world, with a per capita Gross National income of US$ 34510 (2003). In terms of purchasing power parity, manufacturing has been the basis of Japan's economy since the 1960s and today accounts for just over 20% of current-price GDP.
- The potential manufacturing sectors wherein the offshore consultancy opportunities exist include Telecommunication, Microelectronics, Biotechnology, Information Communication Technology.

Recommendations and Action Plan

- The overseas companies have assessed that they can improve their bottom line further by taking advantage of lower labour costs through offshore activities. A broad spectrum of opportunities is available to Indian

companies providing services in areas of engineering design, development and delivery of specialized components; offshore product development opportunities.

- The tax benefits available to IT firms should also be extended to engineering design offshore firms to build synergy between the two which would enhance export of engineering design services.
- The key strategies and action able plans are broadly categorised into four following categories.
- Market understanding includes detailed field based studies of the identified sectors in the target countries.
- Promotion includes delegations / mission to target countries, Tax benefits and identification & strengthening of a nodal agency for promotion of Indian engineering capabilities.
- Focused marketing includes strategic alliances with local consulting firms, negotiate against trade barriers, credit facility and support creation of world-class infrastructure facilities in the form of Engineering Offshore City which could be an integral part of existing IT Parks.
- Quality assurance includes recognition of Indian qualifications.

METHODS OF CONTRACTING

In projects exports, the importer may not have the necessary technology and managerial expertise to run the project. The project importer may use the services of the project exporter for providing technical and managerial expertise. The project exporter may agree to provide such services for a monetary compensation. In some cases the Project importer requires the project exporter to design, construct and equip a manufacturing/business service facility and oversee the initial operations and hand over the facility for remuneration. Depending upon the nature of the service offered by the project exporter, the nature of Project contracts vary. The prominent methods of contracting in Project exports are:

1. Build – Own – Operate – Transfer (BOOT)
2. Build – Own – Operate (BOO)

3. Build – Own – Transfer (BOT)
4. Build – Own – Lease – Transfer (BOLT)

BOOT means Build, Own, Operate, and Transfer. The concept of BOOT involves an arrangement by which a private developer builds an infrastructure facility using limited or non-recourse financing in return for the right to operate the facility and charge users a fee in order to generate a commercially acceptable rate of return (15% or more) on investment. The private developer owns and operates the project for a specified amount of time, usually 25 to 30 years, after which ownership is transferred to the government without compensation.

BOOT, BOO, BOT are used to denote projects under which private sector companies build a public sector project and operate it. BOOT projects are transferred to the government at the end of the relevant period. The company undertaking the project receives payment for the project out of the income earned by the project. As a result, the government agency permitting execution of the project does not have to borrow for the project and also does not need to maintain the project. BOOT deals are especially entered into in developing countries and Eastern Europe on account of privatisation and liberalisation of their economy. Any project financing or **BOOT transaction involves major network of interrelated contracts.** These projects involve a large numbers of entities and highly complicated cross agreements. As a result, very few projects have been concluded though negotiations are attempted for many projects. Multilateral funding agencies and national export credit agencies are usually present in large project financing and BOOT deals.

BOT (Build, Operate and Transfer) is a method of contracting when the project exporter retains the control of the project for a time to receive profits from operational revenue, and then transfers ownership, often to the local public sector company. Under BOT method the private entity receives a franchise from the public sector to finance, design, construct and operate a facility for a specified period, after which the ownership is transferred back to the public sector. During the time that the project proponent operates the facility, it is allowed to charge facility users appropriate tolls, fees, rentals and charges stated in their contract to enable the project proponent to recover its investment and operating and maintenance expenses in the project.

BOT is now also used in the off-shoring and outsourcing of knowledge work. In these cases there is usually no government or public funding involved.

Typically, a Western customer contracts with an Indian or Chinese vendor and the vendor builds and operates a customer call center or other business process for an extended period of time. However, the client retains the right to take over the operation ('transfer') at any time based on certain conditions and certain payments to the offshore partner.

BOLT (Build, Own, Lease, and Transfer) is for when the company leases control to third parties, before transferring ownership. In this method of contracting the project exporter will complete the project and transfers the possession of the project to a third party till realisation of his costs and finally transferred to the project importer.

BOO (Build, Own, Operate) is used when ownership of the project remains with the same company throughout its life. In this method the project exporter owns the project and the ownership is not transferred to the project importer. The project importer gains from the indirect benefits arising from the project. Such project contracts are awarded in priority sectors of the economy like Sanitation and Drinking Water, mostly in the Least Developed Countries. The project exporter stands to gain by way of concessions in tax etc. The cost of the project is met mostly by the Multilateral Development Agencies like International Development Agency an arm of the World Bank extending assistance to poor countries by way of Grants and soft loans.

STRENGTHENING OF INDIAN CONSULTANCY FIRMS

Consultancy firms are increasingly required to provide a comprehensive range of services spanning various sectors of the economy. This calls for pooling of resources, complementary skills and the ability to draw upon resources adopting a consortium approach. Consultancy firms with shareholders having acknowledged expertise in specific sectors can, by coming together effectively, handle multi-sectoral assignments. Such organisations and service providers need to be strengthened to create potential for project exports from India.

Government Initiatives:

In the recent period, the trade policy in India reflects the strategic importance of India's comparative advantage of trade in services. The services sector has been identified as a thrust sector for trade policy. The Foreign Trade Policy, 2004 – 09 has announced the setting up of Services Export Promotion

Council to map opportunities for key services in import markets and to develop strategic market access programme.

Some of the key initiatives of the government in promoting exports of consultancy services are through Market Development Assistance (MDA), Market Access Initiative (MAI) scheme, proactive EXIM Policy and EXIM Bank schemes.

- Government also provides exemption on service tax for export of consultancy services. However due to lack of clarity in the provisions in the present notification, consultancy export may be affected.
- Income tax exemption under section 80 'O' need to be reinstated to enhance consultancy exports.

STRATEGIES AND RECOMMENDATIONS FOR INCREASING INDIAN CONSULTANCY EXPORTS

Indian consultants need to create presence in thrust markets to demonstrate Indian capabilities, serve as ambassadors of Indian expertise, and create opportunities for follow-on assignments as also downstream linkages for exports of supplies, projects. Higher success rate in securing consultancy contracts would have a multiplier effect for securing turnkey and construction contracts as well as supply contracts. The Task force on Project Exports has recommended for setting up of **Consultancy and Technology Division** under Projects Exports Promotion Council.

In a highly competitive global arena, Indian companies bidding for consultancy contracts overseas have to adopt appropriate strategies which would include the following:

1. Indian consultancy firms should be well positioned so as to project India as a source of technological skills by creating a bank of their consultancy capabilities for marketing through Indian Embassies and missions abroad, gaining early access to information about tenders for international projects, forming consortium with companies that complement their skills, registering themselves with multilateral institutions worldwide and with their international vendors, licensors and engineering consultancy companies.

2. India is a major player in the global software sector. CAD/ CAM based design-engineering services contracts can be targeted by capable Indian software companies. Similarly, project management or maintenance contracts can be a focus area. With increasing opportunities in projects and services exports, Indian firms should participate aggressively in multilateral agency funded projects.

3. Indian consulting firms need to achieve international certification standards, including ISO 9000, which can enhance the quality image of Indian firms.

4. The nature of consultancy services that can be potentially exported include the gamut of functions associated with pre-project, project execution and post-project services spanning various sectors.

5. Indian consultants are increasingly making their presence felt in sectors such as education and health.

Recommendations and Action Plan:

The primary functions of Consultancy Division would include:

(i) Identification of business opportunities.

(ii) Providing global market intelligence and contributing to business strategy.

(iii) Creating a databank on suppliers and construction companies with whom Indian consultants can tie up particularly for large Engineering Procurement and Construction contracts.

(iv)Effectively publicizing India's consultancy expertise.

(v) Establishing linkages with various funding agencies.

(vi)Promoting the consultancy profession.

Apart from the primary functions the action plan of the Consultancy Division of the Projects Exports Promotion Council would include:

Growth potential for consulting services is envisaged to be high in South East Asian and East African countries as these countries are pursuing fast track development plans across diverse sectors. In the CIS countries, although all of them have development agenda, they are comparatively not as fast paced as the east African countries and the development potential is limited to a few sectors.

The key strategies and action able plans are broadly categorised into four following categories.

- Market understanding includes conducting field based exploratory studies in the target markets, creation of database of local consultants, setting up the mechanism for gathering market intelligence.
- Promotion includes organizing "Consultancy Trade Marts (CTM)" in the target countries, organizing delegations of Indian industry to target countries, creating awareness of Indian consulting capabilities within the Indian Embassies in these countries, Tax benefits, identify and empower a nodal agency for sustainable promotion of Indian consulting business and developing closer ties with bilateral and multilateral institutions.
- Focused marketing includes strategic alliances with local consulting firms, creation of Consultancy Development Fund (CDF) and merger & acquisition.
- Quality assurance includes appointment of a regulator for quality assurance.

CONSULTANCY FIRMS - A CONSORTIA APPROACH

Global Procurement Consultants Ltd. (GPCL): GPCL was set up to deal primarily with procurement related advisory services. GPCL has as its shareholders leading consultancy firms from both the private and the public sector. The company caters to areas as diverse as Health, Education, Agriculture, Mining, Transportation, Communication, Energy, Water Resources and more. GPCL acts as the client's representative in taking on the total responsibility of procurement, by providing a comprehensive range of procurement related advisory services. With thorough knowledge of the guidelines and practices stipulated by international funding agencies like the World Bank, African Development Bank and Asian Development Bank , GPCL has the expertise to provide to the project authorities appropriate advice and service in procurement, strictly following the procedures and policies of MFAs.

Petroleum India International (PII): Petroleum India International (PII) is a consortium of top eight corporates in the petroleum & petrochemicals industry in India with combined annual turnover exceeding 40 billion US dollars and

employing over 45,000 trained manpower. PII is a Single Window Organisation of Indian Petroleum Industry which renders expert Technical, Managerial and Human Resource Services. PII is actively involved in Training & Development activities for the International Petroleum Industry Personnel. PII is also involved in the areas of Technical & Management Consultancy for the International Petroleum Industry and rendering IT Solutions.

Review Questions:

1. Present the scenario of Indian Consultancy Exports.
2. Analyse the reasons for inadequate presence of Indian Consultancy Exports in International market.
3. What are the merits and limitations of the Indian Consultancy Exports sector? Analyse the opportunities for Indian Consultancy Exporters.
4. Briefly describe the prominent methods of contracting.
5. Enumerate the various strategies, initiatives and action plan by the Indian consultancy exporters for increasing their presence in the international market.
6. Comment on 'outsourcing' as a business opportunity for Indian consultancy exporters.

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UNIT-V

PROJECT FINANCE

Learning Objectives: To gain an in-depth knowledge about project financing and appraisal techniques in project financing.

Introduction:

Project finance involves raising funds for a capital investment project that can be economically separate from its sponsor. The suppliers of funds depends primarily on the cash flow of the projects to services their loans and provide return on their equity investments in the project.

Project Finance has assumed great significance for infrastructure projects from 1970s onwards, it has a long history. Indeed venture-by- venture financing of projects with definite life was the nom in commerce until their 17^{th} century. A classic example is the loan provided by the Frescobaldu, an Italian merchant bank in 1299 to the English Crown for developing Devon Silver mines. The loan contract entitled the lender to control the operation of the mines for one year and take as much unrefined ore as it could extract during that period.

Peter Nevitt, in his book .Project Financing., has defined Project Finance as 'A financing of a particular economic unit in which a lender is satisfied to look initially to the cash flows and earnings of that economic unit as the source of funds from which a loan will be repaid and to the assets of the economic unit as collateral for the loan'.

Project Financing is an innovative and timely financing technique that has been used mainly for large scale infrastructure and industrial projects. It employs a carefully engineered financing mix. It has been used for a long time in large-scale natural resource projects, from pipelines and refineries to electric-generating facilities and hydro-electric projects. Increasingly, project Financing is emerging as the preferred alternative to conventional methods of financing infrastructure and other large-scale projects worldwide.

Project Financing as a discipline includes understanding the rationale for project financing, how to prepare the financial plan, assess the risks, design the financing mix, and raise the funds. A fair knowledge is required for the design of contractual arrangements to support project financing; issues related to the

legislative provisions of the host government, public/private infrastructure partnerships, public/private financing structures; credit requirements of lenders, and how to determine the borrowing capacity of the project ; how to prepare cash flow projections and use them to measure expected rates of return; tax and accounting considerations; and analytical techniques to validate the feasibility of the project .

FEATURES OF PROJECT FINANCE

The key features of project finance are:

- The project is set up as a separate company which is granted a concession by the government.
- The sponsor company which promotes the project usually takes a substantial stake in the equity of the project and enjoys the overall responsibility for running the project.
- The project company enters in to comprehensive contractual agreements with varies parties like contractors, suppliers and customers.

The project company employs a high debt-equity ratio, with lender having no recourse or limited recourse to the sponsor company or to the government in the event of default.

STRUCTURE OF PROJECT FINANCING

Project financing takes one of the following modes namely 'Balance sheet financing' or 'with recourse financing' and 'off-balance sheet financing' or 'without recourse financing'. Usually the financing of a project is done off the balance sheet of its sponsoring company. The structure of project financing attracts financiers to a proposed project on the basis of the revenues generated by the projects, rather than the general assets of the sponsor. As a result, the sponsor can avoid providing financier **'with recourse'** to its general assets in the case of poor project performance, which in turn allows the financier to finance the project off its balance sheet.

This structure permits financing of a project whose sponsors are either (a) unwilling to expose their general assets to liabilities to be incurred in connection with the project (or are seeking to limit their exposure in this regard)

or (b) do not enjoy sufficient financial standing to borrow funds on the basis of their general assets.

This structure also provides a means for sponsors to minimise their exposure to the risks associated with the project by attracting a variety of investors or lenders with which project risks are shared in exchange for a share of project revenues. The structure, therefore, centres on the viability of the proposed project rather than the financial standing of the sponsor. It is financed on the assumption that the project will generate cash surplus after operating cost, debt service and dividend payments made to lenders and shareholders. This is called **'non-recourse'** financing (NRF). as the same is not included in the balance sheet of the sponsor, is outside existing loan covenants and has minimal impact on existing borrowings. This type of project finance is a solution whereby a tailor made financial package is developed with a supporting security structure that will enable the sponsor to participate in a project which would otherwise be beyond his means.

Project finance is finance for a particular project, such as a mine, toll road, railway, pipeline, power station, ship, hospital or prison, which is repaid from the cash-flow of that project. Project finance is different from traditional forms of finance because the financier principally looks to the assets and revenue of the project in order to secure and service the loan. In contrast to an ordinary borrowing situation, in a project financing the financier usually has little or no recourse to the non-project assets of the borrower or the sponsors of the project. In this situation, the credit risk associated with the borrower is not as important as in an ordinary loan transaction; what is most important is the identification, analysis, allocation and management of every risk associated with the project.

In a no recourse or limited recourse project financing, the risks for a financier are more. Since the loan can only be repaid when the project is operational, if a major part of the project fails, the financiers are likely to lose a substantial amount of money. The assets that remain are usually highly specialised and possibly in a remote location. If saleable, they may have little value outside the project. Therefore, it is not surprising that financiers, and their advisers, go to substantial efforts to ensure that the risks associated with the project are reduced or eliminated as far as possible. It is also not surprising that because of the risks involved, the cost of such finance is generally higher and it

is more time consuming for such finance to be provided. Thus Project Finance loans can be:

- With recourse when appropriate guarantees and/or unconditional 'take or pay' contracts provide security to the lenders.
- With limited recourse - when guarantees are limited as to amount or unconditional 'take or pay' contracts
- Without recourse where lenders look for payment only to the future projects/surplus generated by the project itself.
- The sponsor may accept the credit risk during the period upto commencement of production and thereafter transfer the risk to lenders.

Advantages:

The advantages of using Project Finance approach are:

- Credit sources may be open to the project entity which would not available to the sponsor alone.
- Guarantees will be available to the project entity which likewise would not be available to the sponsor alone.
- A measure of asset protection is introduced through other investors taking equity participation in the project.
- The sponsor retains the ability to borrow from other means.

Conditions for Project Finance:

Project Financing to be a successful method of financing depends on various factors. The following are some of the important factors:

- Stable and friendly political environment
- Demand for output
- Availability of raw material over the lifetime of the project
- Adequate transport for both input and output
- Availability licences and permits
- Availability of electricity, water and other infrastructural facilities
- Tried technology appropriate to the country

- Independent feasibility study
- Availability of appropriate professional and operating personnel
- Adequate security from the sponsors or guarantors (Government of host country)
- Accurate project and production cost estimate
- Construction and turnkey contract by experienced and reliable contractors
- Strong credit support during construction and commissioning.

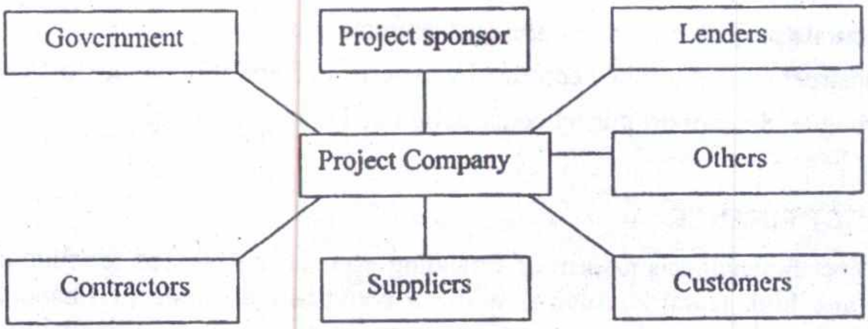
SOURCES OF FINANCE

Project Financing is a form of financing especially designed for funding high risk and high reward projects. While a conventional mode of financing involves fund raising from both internal and external source, project financing is no exception. 'Internal source' refer to the Owners' own money known as equity. An overwhelming portion of money needed is arranged from 'External sources' like the Financial Institutions and the Commercial Banks. Usually a Project company employs a very high debt-equity ratio of capital. This reflects the nature of Overseas Projects which is exposed to high risk and therefore a high reward. As the projects are mainly in the area of Infrastructure Development, the duration of the project is very long and therefore involves a long credit period. Usually, Development Finance Institutions at the Global and National level are the main sources of financing. Apart from the International Financial Institutions and National Development Financial Institutions, Eurocurrency market provides long term loan in form of Bonds.

- Project sponsors and their foreign partners
- National and international development banks
- Export credit finance agencies
- Domestic banks
- Eurocurrency loan from capital market
- Leasing
- Finished product finance - advance payment from potential customer, forward purchase of finished product.

MAIN PARTIES OF PROJECT FINANCE

There are several parties involved in a project finance arrangement shown below:



Project sponsors: project sponsors establish a separate company to undertake the project. Typically a single sponsor or a group of sponsors, who generally participate in the construction and management of the project, will own a controlling stake in the equity of the project. Other equity holders are likely to be companies that have commercial interest in the project, such as suppliers, customers, and financial investors.

Lenders: infrastructure projects typically involve substantial investments. A significant proportion of the financing need is generally raised by way of loans from a syndicate of lenders such as banks and financial institutions and occasionally through a bond issue.

A plausible explanation for the widespread use of bank finance in preference to bond finance stems from the difference in the ownership structure of these two forms of debt. The ownership of bank debt is concentrated, whereas the ownership of bond debt is diffused. The concentrated ownership debt motivates banks to evaluate the project thoroughly and to monitor its progress continuously. Further, should the project company it difficult to service its debt it can renegotiate with the bank/s.

In comparison the diffused ownership structure of bonds diminishes the incentives of bond owners to evaluate thoroughly the project proposal and

monitor its progress on a continuing basis. Also it becomes difficult for bond owners to take concerted action if the bond covenants are violated or should there be a need for renegotiating the terms of debt.

Contractors: the principle contractor/s of the plant will often take a stake in the equity of the project and agree to bear penalty, which at time can be severe, for not completing their work on time.

Suppliers and customers: once the project facility becomes operational, the project company will have to buy its supplies and sell its output or services. Typically long-term contracts are enter into with suppliers and consumers. Sometimes, of course, the projects may have only one customer. For example, the sole customer of an independent power producer may be the state owned electricity board.

Government: often the project company needs a concession from the government to build a road or operate a telecommunication service. Apart from granting concession, the government mainly may sets up regulatory framework to govern the relationship between the project company and its customers.

MODUS OPERANDI: (Financing of projects)

In the most cases the government may allow the project company to retain the ownership of the project assets. Such an arrangement is called a BOO (Build-Own-Operate) arrangement. In other cases the assets of the project are expected to be transferred to the government after the concession period. This arrangement is called a BOT (Build-Operate-Transfer) arrangement. In practice, there may be numerous variations of these arrangements. BOOT (Build-Own-Operate-Transfer). BOOT projects are transferred to the government at the end of the relevant period. The company undertaking the project receives payment for the project out of the income earned by the project. As a result, the government agency permitting execution of the project does not have to borrow for the project and also does not need to maintain the project.

BOOT deals are especially entered into in developing countries and Eastern Europe, on account of privatisation and liberalisation of their economy. Any project financing or BOOT transaction involves major network of interrelated contracts. These projects involve a large numbers of entities and highly complicated cross agreements. As a result, very few projects have been

concluded though negotiations are attempted for many projects. Multilateral funding agencies and national export credit agencies are usually present in large project financing and BOOT deals.

As project gets larger, it becomes more difficult to find a single financial source even one which will accept part of the risk. Advice from experts is needed to guide the lengthy process of putting together a large financing package at lowest possible cost. Project Finance combines project appraisal methods needed for more conventional means of raising finance with its own approach to the various sources of finance. Because such sources are project oriented, they can be customers and suppliers as well as financial institutions. Method of appraisal are complex but are justified by the large sums involved and the possibilities they provide of reducing the costs of the project and minimising the associated risks. Common interest of all sponsors and participants is minimising risks and costs. Close analysis and detailed quantification results in success of the project. The appraisal would also include assessment of creditworthiness, track record and management capabilities of the project sponsor, guarantor as well as other parties such as EPC contractors, product purchasers, suppliers etc. A rigorous appraisal of the feasibility of the project is an automatic process before financial commitments are made. Official agencies such as the World Bank require a full appraisal of any proposed project not only in order to review its financial viability but also to measure its social, economic and environmental impact on the host country.

Project financing is more expensive than traditional lending since it involves additional risks and extra work for the banks and lawyers and others concerned on evaluating the project and negotiating complex documents. On the other hand the borrowers and sponsors are in advantageous situation as part or whole of the payment risk is shifted to lenders.

Although the banks assume all or part of the repayment risk, when the project is under implementation, usually the sponsor is required to take on a major part of the risk during execution stage such as delay in completion, abandonment, cost overruns and failure to achieve any stipulated performance levels, shortfall in output costs, availability of workforce during project execution stage as well as operation stage, market risk apart from equity contribution from the sponsors. Other risks involved in project financing include

political risks fluctuations in exchange and interest rates, volatility in world prices, inflation and imposition of new tariffs.

Global Scenario:

Globalization in many countries has resulted in development of various forms of project financing. China offers the biggest prospective market for project financing in Asia followed by South East Asian countries. East European countries especially Poland, Hungary and the Czech Republic are preferred by lenders and sponsors. Russia can attract companies for setting up projects in sectors such as oil, gas and pipeline construction. The lending of EBRD to these countries is used as leverage to attract private investment. Finnish Guarantee Board has supported several power projects on build, operate and transfer basis and telecommunications projects in emerging countries in Asia. A project financing arrangement involves a multitude of separate agreements like creation of the project company, project management agreements, joint venture agreement between project sponsors. There will also be mortgage documents, assignments of rights under related contracts, escrow accounts and pledges of shares in the project company including charge over dividend rights.

CONTRACTUAL AGREEMENTS

A project company is set up to undertake a single project only. However, there is no restriction on the number of parties that participate in the project. All companies have equity shareholders, lenders, contractors, suppliers and customers, and all deal with the government.

The key differentiating feature of project finance is the manner in which project risks are allocated to various parties involved in a project.

Through a comprehensive web of contracts, every major risk inherent in the project is allocated to the parity/parties that are best able to assess and manage that risk. Since a party to a project will agree to assume risk at a reasonable price only if it understands that risk clearly, project finance is appropriate only for projects like power stations, roads, railway lines, airports, and telecom networks that involve established technologies. Project finance is not suitable for projects that involve complex or unproven technologies, as suggested by the inability of the U.K. Government to arrange project finance for research and development projects.

Risk sharing under contractual arrangements by various parties to a Project:

- The project sponsor normally assumes the risk of project completion, operation, and management through a facility management contract. Further, the sponsor may enter into a "working capital maintenance" agreement with the lending banks to ensure adequate funding support in the initial years.
- The main contactor, who is best able to control construction risks, often enters into a turnkey arrangement that stipulates a fixed price and imposes penalties for delays. He may also be asked to post a performance bond.
- When a project has a major supplier, a contract will be drawn up to ensure that the supplier produces sufficiently and does not abuse its potential monopoly power.
- When there is a major customer (or few major customers) for the output of the project, the revenue risks are transferred largely to him through a long-term sales contract which generally includes a take-or-pay clause and links prices to costs. The transfer of revenue risk to customers gives them the incentive to estimate their demand for the project output carefully.
- When a project has numerous customers, as in the case of a toll road, it is virtually impossible to draw up a long-term sales contract. On such cases, the government may have to provide some guaranteed return to attract project finance.
- The lenders of the project will insist on the usual assurances, including proper security for loans, from the project company. In addition, they may require some recourse to project sponsors for specific problems like cost over-runs. Lenders normally want that cash in excess of debt servicing burden is not distributed to equity shareholders. Rather, it is put in a "reclaim" account which can be used if future cash flows are not adequate to service the debt.
- When a project company gets a concession from the government, a concession agreement is drawn up which grants the projects company the right to build and operate the project. The agreement, among other things,

may stipulate that the government constructs supporting facilities such as railway links.

To sum up, the distinctive feature of project finance is a web of contractual arrangements, which may change over time, designed to distribute various risks inherent in the project to parties best qualified to appraise and control them. Hence project finance represents an efficient way of allocating and managing risk.

The following illustration provides an idea about the various contracts entered by the Project Company.

GVK Industries sponsored GVK Power, the project company, to set up a power project. GVK Power entered into the following contracts with various parties.

- A *turnkey execution contract* was awarded to ABB, Switzerland. This contract stipulated that ABB, Switzerland would have to execute the turnkey contract within 28 months from the time of finalization of funding. The contact imposed a penalty of rupees one crore for every day of delay beyond 28 months. Thus, the *construction risk* was transferred to ABB, Switzerland.

- An *operations and maintenance contract* was awarded to CMS Corporation. This contract imposed a penalty CMS Corporation if the plant load factor was less than 85%. Thus the *operating risk* was substantially shifted to CMS Corporation. CMS Corporation also took a 25% equity stake in GVK Power.

- A *power purchase agreement* was entered with the Andhra Pradesh State Electricity Board was entered under which the tariff was fixed at Rs 2.20 per unit for 30 years. GVK Power enjoys the freedom to sell power in excess of 71% plant load factor directly to customers. Thus the *market risk* has been transferred to APSEB.

- A *loan agreement* has been entered into with IFC, ADB and Indian financial institutions who have agreed to a Debt – Equity ratio of 70: 30.

Thus, the key differentiating feature of Project Finance is the manner in which project risks are allocated to various parties involved in a project.

INSTITUTIONS SUPPORTING THE PROJECT EXPORTS FROM INDIA

Project Exports from India are mainly financed by Commercial Banks, Exim Bank and the Working Group. The Working Group comprises of Reserve Bank, Exim Bank, other financial institutions like ICICI, IDBI, SIDBI, IFCI and Commercial Banks. Apart from the lending institutions, ECGC plays a vital role in supporting the project exports from India, in managing the risk involved in these ventures. **The role of EXIM Bank and ECGC is dealt in detail in Chapter III.**

WORKING GROUP

Various aspects of project contracts require approval of several institutions in India such as Reserve bank, EXIM bank, ECGC and the financing bank. With a view to obviating the necessity for exporters to approach different agencies for obtaining approval and avoiding delay, a working group comprising representatives of EXIM Bank, Reserve Bank, ECGC and the bankers of the exporter with Exim bank as the focal point is functioning to grant package clearance to proposals submitted by exporters. In case of contracts of high representatives of Finance and Commerce Ministries of Government of India will also ordinarily participate in the meetings of the Working Group. In order to obtain immediate clarification and thus quicken the disposal by the working group, exporters are also associated with the meetings. With the same object, participation of the main sub-suppliers, sub-contractors and their bankers in such meetings is also encouraged, particularly where high value proposals are involved.

For executing a project abroad, the exporter has to pass through the following stages:

1) Obtaining pre-bid clearance from the working group;
2) Submission of bids to the employer;
3) Obtaining post-bid clearance from the working group; and
4) Taking up and completion of the project.

The following is the procedure for obtaining clearance from the Working Group.

Pre-bid Clearance:

Exporters desiring to submit bids for deferred exports or turnkey projects should apply to their bankers in form DPX-1 in ten copies, at least ten working

days before the last date for submission of the bid. If the contract is for Rs.25 crores or less the bank concerned, and if the contract is for value above Rs.25 crores but within 100 crores the Exim Bank can grant clearance in principle provided the following conditions are fulfilled:

a) The period of deferred credit should conform to the maximum period allowed by exchange control regulations. For capital/producer goods and turnkey projects a the period of credit that maybe offered is as under:

Contract Value	Capital/Producer Goods	Turnkey Projects
Up to Rs. 10 lakh	3 years	4 years
Over RS.10 lakh but not exceeding Rs.50 lakh	5 years	6 years
Over RS.50 lakh but not exceeding Rs.1 crores	8 years	9 years
Over Rs.1 crores	11 years	12 years

Consumer durables and miscellaneous engineering goods should ordinarily be exported only on cash terms. In exceptional cases deferred payment terms may be extended up to one year from the date of shipment. Where the value of individual export order is Rs.10 lakhs or more, credit period may be increased up to a maximum of two years.

b) Moratorium for repayment of principal should not exceed one year in respect of export of capital/producer goods and two years for turnkey projects. No moratorium for export of consumer durables and for payment of interest.

c) Deferred receivables should be received in equal half yearly installments over the agreed period with relation to the mean date of shipments or the date of respective shipments.

d) The rate of interest on deferred receivables should normally cover the cost of post-shipment credit to the exporter at the prevailing rate.

e) Down payment together with advance payment should not be less than 10 percent of the contract value. The rate of agency commission should not exceed 5 percent of the contract value.

f) Down payments and deferred payments receivable should be secured by a letter of credit/bank guarantee or promissory note from the foreign government.

g) Bridge finance or meeting temporary shortfalls in working capital should not normally exceed 10 percent of the contract value.

Proposals not confirming to the above and those in excess of rs.100 crores should be got cleared by the Working Group.

Once the proposal is cleared the bankers of the exporter may furnish the bid bond. If the bid is successful, the exporters may furnish the bid bond. If the bid is successful, the exporters may enter into the contract with the overseas buyer and apply for post-award clearance.

Post-bid Clearance

Within fifteen days of entering into contract, the exporter should to his bankers an application in form DPX-3 (in respect of deferred payment supply contract) or in form PEX-4(in respect o civil construction contracts), in ten copies along with eight copies of the contract. If there are any Indian sub-contractors, they should be advised by the prime contractor for obtaining approval of the portion of the contract entrusted to each sub-contractor.

Depending upon the fact whether the pre-bid clearance was granted by the bank itself, Exim Bank or by the Working Group, the bank will grant the post-bid approval or forward the application to Exim Bank or the Working Group, as the case may be for their approval. The approvals given by these institutions are only approvals in principle. In all cases, the final approvals for various fund-based and non-fund based facilities as well as requisite exchange control approvals will be issued separately by the concerned institutions and the exporter's bankers on the basis of the decisions taken while granting package post-award clearance.

All exports under deferred payment terms should be declared on GR/PP form bearing domicile prefix of that of Reserve bank in whose jurisdiction their Head office is functioning. Like wise all suppliers should declare their exports

on form bearing the domicile prefix as that used by the prime contractor for the latter's export, irrespective of the location of the office of the sub supplier.

Consultancy and Services Exports

Contracts for export of consultancy, technical and other services generally fall under the following categories:

a) Preparation of Projects/ feasibility reports, drawings, designs etc.

b) Supply of technical know-how/engineering services in different fields.

c) Operations, maintenance and supervision of manufacturing plants, buildings and structures, etc.

d) Management contracts for commercial concerns.

Service contracts undertaken on 'cash' term and requiring fund-based or non-fund-based facility do not require clearance from Reserve Bank or Working Group. The income earned abroad less expenses should be promptly repatriated to India. In case of service contract in computer software, income equivalent to at least 30% of contract value should be repatriated to India and balance can be retained abroad to meet contract related needs.

Pre-bid clearance

Pre-bid clearance should be obtained in the case of export on cash basis but requiring fund-based or non fund-based facilities, from Authorized Dealer and Exim Bank where value of contract exceeds Rs. % Crores and Rs. 10 Crores respectively. Cash exports beyond Rs.10 Crores and all deferred payment exports require clearance by Working Group.

The contract should fulfill the following requirements:

a) The value of the contract should not be less than Rs.20lakhs, if deferred payment terms are to be offered. The credit period should not exceed the following limits:

Contract value	Maximum credit period
Over Rs20 lakhs up toRs.3 crores	3 years
Over Rs.3 crores up to Rs.5 crores	4 years
Over Rs. 5 crores	5 years

b) The rate of interest on deferred receivables should cover cost of export credit in India.

c) Advance payment upto 25% should be provided for in the contract. In exceptional cased it may be reduced to 5%. In any case, the advance/progress payment should fully cover the foreign exchange outgo and personnel expenses on the project.

d) Payment of installments should be secured by letters of credit/bank guarantee or by Government guarantee in respect of public sector units.

e) The rate of agency commission should not exceed 12.5% of contract value.

The exporter should apply to his bank in Form-TCS 1 in ten copies at ten working days before the last date for submission of the bid to the overseas employers. The bank will give in-principle sanction where the bid /offer is Rs.5 crores or less. If the proposal is exceeding Rs.5 crores, the bank will communicate detailed comments and recommendations to Exim Bank in form TCS 2. Contracts up to Rs. 10 crores will be cleared Exim bank and those above by the Working Group.

CONCEPT OF PROJECT APPRAISAL

Although specific requirements differ, any funding organization-be it international or a local bank, requires as a minimum a basic technical and financial project appraisal, before agreeing to finance any project. Clearly the greater the funding sought and the higher the perceived risk, the more thorough will be the requirements of the financiers in terms of information provided and the verification procedures.

Simply speaking project appraisal means the assessment of a project. Project appraisal is one of the ways and means to reduce risk involved in projects be it domestic or international. For a financial institution, project appraisal is a process whereby a lending financial institution makes an independent and objective assessment of the various aspects of an investment proposition for arriving at a financial decision and is aimed at determining the viability of the project and sometimes, also in modifying its scope and content so as to improve its viability. However, sometimes project appraisal and project evaluation are used interchangeably.

Feasibility Analysis

Feasibility literally means whether some idea will work or not. It knows before hand whether there exists a sizeable market for the proposed product/service, what would be the investment requirements and where to get the funding from, whether and wherefrom the necessary technical know-how to convert the idea into a tangible product may be available, and so on. In other words, feasibility study involves an examination of the Operations, Financial, HR and Marketing aspects of a business on ex ante (Before the venture comes into existence) basis. A project has to be viable not only in technical terms but also in economic and commercial terms too.

The various aspects of the feasibility of the proposed project are depends on the analysis of the following:

1. Economic Analysis
2. Market Analysis
3. Financial Analysis
4. Technical Feasibility Analysis
5. Environmental Analysis
6. Risk Analysis

Economic Analysis

Economics is the study of costs- and- benefits. In regard to the feasibility of the study the project sponsor is concerned whether the capital cost as well as the cost of the product is justifiable vis-à-vis the price at which it will sell at the market place. For example, technically, silver can be extracted from silver bromide, (a chemical used for processing the X-ray and photo films); but, the cost of extraction is so high that it would not be economically feasible to do so. Likewise, until recently cost of harnessing solar power was prohibitively high. This cost-benefit analysis goes into financial calculations for profitability analysis that we discussed under financial analysis. At this stage it is also useful to distinguish between the economic and commercial feasibility; whereas economic feasibility leads one to the unit cost of the product, commercial feasibility informs whether enough units would sell.

Apart from the cost-benefit analysis as above, which also refers to as private cost benefit analysis, it is also useful to do what is known as social- cost-

benefit- analysis (SCBA). For example, the project company may be getting subsidized electricity in which case private cost would be less than social cost. Likewise, exporting units earn precious foreign exchange resulting into social benefits being more than private earnings. Many a time, a project that is worthy on SCBA may find greater favour with the support agencies. In nutshell Economic Analysis deals with a thorough study of Macro-economic situation.

Market Analysis

A market, whether a place or not, is the arena for interaction among buyers and sellers. From seller's point of view, market analysis is primarily concerned with the aggregate demand of the proposed product/service in future and the market share expected to be captured. Success of the proposed project clearly hinges on the continuing support of the customers. However, it is very difficult to identify the market for one's product/service. The market should be carefully segmented according to some criteria such as geographic scope, demographic and psychological profile of the potential customers etc. In the Market analysis the following aspects are studied:

- Consumption trends
- Past and present supply position
- Production possibilities and constraints
- Imports and Exports
- Competition
- Cost structure
- Elasticity of demand
- Consumer behaviour, intentions, motivations, attitudes, preferences and requirements
- Distribution channels and marketing policies in use
- Administrative, technical and legal constraints impinging on the marketing of the product

Financial Analysis

The objective of financial analysis is to ascertain whether the proposed project will be financially viable in the sense of being able to meet the burden of servicing debt and whether the proposed project will satisfy the return

expectations of those who provide the capital. While conducting a financial appraisal certain aspects has to be looked into like:

- Investment outlay and cost of project
- Means of financing
- Projected profitability
- Break- even point
- Cash flows of the project
- Investment worthiness judged in terms of various criteria of merit
- Projected financial position

Technical Feasibility Analysis

The issues involved in the assessment of technical analysis of the proposed project may be classified into those pertaining to inputs, throughputs and outputs.

- **Input Analysis:** Input analysis is mainly concerned with the identification, quantification and evaluation of project inputs, that is, machinery and materials. You have to ensure that the right kind and quality of inputs would be available at the right time and cost throughout the life of the project. You have to enter into long-term contracts with the potential suppliers; in many cases you have to cultivate your supply sources. When Macdonald entered India, they developed sustainable sources of supply of potatoes, lettuce and other ingredients for their burgers. The activities involved in developing and retaining supply sources are referred to as supply chain management.

- **Throughput Analysis:** It refers to the production/operations that you would perform on the inputs to add value. Usually, the inputs received would undergo a process of transformation in several stages of manufacture. Where to locate the facility, what would be the sequence, what would be the layout, what would be the quality control measures, etc. are the issues that you would learn in greater details in subsequent lessons.

- **Output Analysis:** This involves product specification in terms of physical features-colour, weight, length, breadth, height; functional features; chemical material properties; as well as standards to be complied with such as ISO etc.

Environmental Analysis

In recent years, environmental concerns have assumed a great deal of significance especially for projects, which have significant ecological implications like power plants and irrigation schemes, and for environment polluting industries (like bulk drugs, chemicals and leather processing). The concerns that are usually addressed include the following:

- What is the likely damage caused by the project to the environment?
- What is the cost of restoration measures required to ensure that the damage to the environment is contained within acceptable limits?

Risk Analysis

Project Financing is all about Risk Management and Cash Flow Analysis. Cash Flow Analysis is a routine exercise carried out by the funding / financing agencies under Project Appraisal. Overseas Project or Project Exports is more exposed to risks than domestic projects. In appraising Overseas Projects the funding / financing agencies give a special stress to Risk Analysis and Management.

RISK ANALYSIS MANAGEMENT IN PROJECT FINANCING

Risk is inherent in every business venture. An Overseas Project Export is exposed to various types of risks from the inception of the project to the completion of the project. Risk can not be completely avoided but could only be mitigated. Mitigation/minimization of risk involves prudent risk management techniques.

Types of Risks

Every project is different and it is not possible to compile an exhaustive list of risks or to rank them in order of priority. What is a major risk for one project may be quite minor for another. In a vacuum, one can just discuss the risks that are common to most projects and possible avenues for minimising them. However, it is helpful to categorise the risks according to the phases of the project within which they may arise: (1) Risks during construction phase (2) Risk during operation phase or (3) Risks common to construction and operational phases. It is useful to divide the project in this way when looking at

risks because the nature and the allocation of risks usually change between the construction phase and the operation phase.

1. Construction Phase Risk:

The project is exposed to a singular risk of completion . An extension in terms of time resources would cost the sponsor and the financer badly.

a. Completion Risk:

Completion risk allocation is a vital part of the risk allocation of any project. This phase carries the greatest risk for the financier. Construction carries the danger that the project will not be completed on time, on budget or at all because of technical, labour, and other construction difficulties. Such delays or cost increases may delay loan repayments and cause interest and debt to accumulate. They may also jeopardize contracts for the sale of the output of the project and supply contacts for raw materials.

Commonly employed mechanisms for minimizing completion risk before lending takes place include:

i) Obtaining completion guarantees requiring the sponsors to pay all debts and liquidated damages if completion does not occur by the required date;

ii) Ensuring that sponsors have a significant financial interest in the success of the project so that they remain committed to it by insisting that sponsors inject equity into the project;

iii) Requiring the project to be developed under fixed-price, fixed-time turnkey contracts by reputable and financially sound contractors whose performance is secured by performance bonds or guaranteed by third parties; and

iv) Obtaining independent experts' reports on the design and construction of the project. Completion risk is managed during the loan period by methods such as making pre-completion phase drawdown of further funds conditional on certificates being issued by independent experts to confirm that the construction is progressing as planned.

2. Operation Phase Risks:

The operation phase risk may occur in the following forms;

a. Resource / Reserve Risk:

This risk is associated with a mining project, rail project, power station or toll road. There are inadequate inputs that can be processed or serviced to produce an adequate return. For example, this risk assumes that there are insufficient reserves for a mine, passengers for a railway, fuel for a power station or vehicles for a toll road.

Such resource risks are usually minimized by:

i) The reports of the experts as to the existence of the inputs (e.g. detailed reservoir and engineering reports which classify and quantify the reserves for a mining project) or estimates of public users of the project based on surveys and other empirical evidence (e.g. the number of passengers who will use a railway);

ii) Requiring long term supply contracts for inputs to be entered into as protection against shortages or price fluctuations (e.g. fuel supply agreements for a power station);

iii) Obtaining guarantees that there will be a minimum level of inputs (e.g. from a government that a certain number of vehicles will use a toll road); and

iv) "Take or pay" off-take contacts which require the purchaser to make minimum payments even if the product cannot be delivered.

b. Operating Risk

These are general risks that may affect the cash-flow of the project by increasing the operating costs or affecting the capacity of the project to continue to generate the quantity and quality of the planned output over the life of the project. Operating risks include, for example, the level of experience and resources of the operator, inefficiencies in operations or shortages in the supply of skilled labour. The usual way for minimizing operating risks before lending takes place is to require the project to be operated by a reputable and financially sound operator whose performance is secured by performance bonds. Operating risks are managed during the loan period by requiring the provision of detailed reports on the operations of the project and by controlling cash-flows by requiring the proceeds of the sale of product to be paid into a tightly regulated

proceeds account to ensure that funds are used for approved operating costs only.

c. Market / Off-take Risk

The loan can only be repaid if the product that is generated can be turned into cash. Market risk is the risk that a buyer cannot be found for the product at a price sufficient to provide adequate cash-flow to service the debt. The best mechanism for minimizing market risk before lending takes place is an acceptable forward sales contact entered into with a financially sound purchaser.

3. Risks common to Construction and Operational Phases:

These risks may occur at any point of time between inception and completion of the project in execution. These risks can be broadly classified as Commercial risks and Political risks.

a. Participant / Credit Risk:

These are the risks associated with the sponsors or the borrowers themselves. The question is whether they have sufficient resources to manage the construction and operation of the project and to efficiently resolve any problems which may arise. Of course, credit risk is also important for the sponsors' completion guarantees. To minimize these risks, the financiers need to satisfy themselves that the participants in the project have the necessary human resources, experience in past projects of this nature and are financially strong (e.g. so that they can inject funds into an ailing project to save it).

b. Technical risk:

This is the risk of technical difficulties in the construction and operation of the project's plant and equipment, including latent defects. Financiers usually minimise this risk by preferring tried and tested technologies to new unproven technologies. Technical risk is also minimised before lending takes place by obtaining experts reports as to the proposed technology. Technical risks are managed during the loan period by requiring a maintenance retention account to be maintained to receive a proportion of cash-flows to cover future maintenance expenditure.

c. Currency risk:

Currency risks include the risks that: (a) a depreciation in loan currencies may increase the costs of construction where significant construction items are

sourced offshore; or (b) a depreciation in the revenue currencies may cause a cash-flow problem in the operating phase. Mechanisms for minimising resource include: (a) matching the currencies of the sales contracts with the currencies of supply contracts as far as possible; (b) denominating the loan in the most relevant foreign currency; and (c) requiring suitable foreign currency hedging contracts to be entered into.

d. Regulatory / Approva's Risk:

These are risks that government licenses and approvals required to construct or operate the project will not be issued (or will only be issued subject to onerous conditions), or that the project will be subject to excessive taxation, royalty payments, or rigid requirements as to local supply or distribution. Such risks may be reduced by obtaining legal opinions confirming compliance with applicable laws and ensuring that any necessary approvals are a condition precedent to the drawdown of funds.

e. Political Risk:

This is the danger of political or financial instability in the host country caused by events such as insurrections, strikes, suspension of foreign exchange, creeping expropriation and outright nationalization. It also includes the risk that a government may be able to avoid its contractual obligations through sovereign immunity doctrines. Common mechanisms for minimising political risk include: (a) requiring host country agreements and assurances that project will not be interfered with; (b) obtaining legal opinions as to the applicable laws and the enforceability of contracts with government entities; (c) requiring political risk insurance to be obtained from bodies which provide such insurance (traditionally government agencies); (d) involving financiers from a number of different countries, national export credit agencies and multilateral lending institutions such as a development bank; and (e) establishing accounts in stable countries for the receipt of sale proceeds from purchasers.

f. Force Maejeure Risk:

This is the risk of events which render the construction or operation of the project impossible, either temporarily (e.g. minor floods) or permanently (e.g. complete destruction by fire). Mechanisms for minimizing such risks include: (a) conducting due diligence as to the possibility of the relevant risks; (b) allocating such risks to other parties as far as possible (e.g. to the builder under the

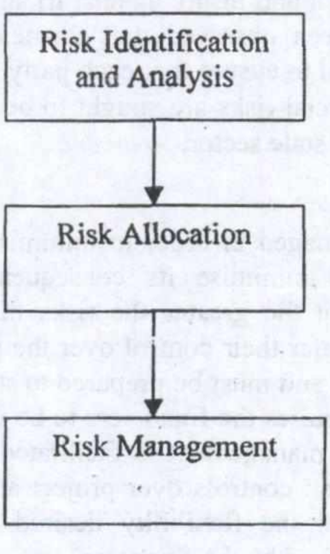
construction contract); and (c) requiring adequate insurances which note the financiers' interests to be put in place.

Mitigation of Risk

Financiers are concerned with minimising the dangers of any events which could have a negative impact on the financial performance of the project, in particular, events which could result in: (1) the project not being completed on time, on budget, or at all; (2) the project not operating at its full capacity; (3) the project failing to generate sufficient revenue to service the debt; or (4) the project prematurely coming to an end.

The minimisation of such risks involves a three step process. The first step requires the identification and analysis of all the risks that may bear upon the project. The second step is the allocation of those risks among the parties. The last step involves the creation of mechanisms to manage the risks.

PROCESS OF RISK MITIGATION



STEP 1 - Risk Identification and Analysis:

The project sponsors will usually prepare a feasibility study, e.g. as to the construction and operation of a mine or pipeline. The financiers will carefully review the study and may engage independent expert consultants to supplement it. The matters of particular focus will be whether the costs of the project have been properly assessed and whether the cash-flow streams from the project are properly calculated. Some risks are analysed using financial models to determine the project's cash-flow and hence the ability of the project to meet repayment schedules. Different scenarios will be examined by adjusting economic variables such as inflation, interest rates, exchange rates and prices for the inputs and output of the project. Various classes of risk that may be identified in a project financing will be discussed below.

STEP2-Risk Allocation:

Once the risks are identified and analysed, they are allocated by the parties through negotiation of the contractual framework. Ideally a risk should be allocated to the party who is the most appropriate to bear it (i.e. who is in the best position to manage, control and insure against it) and who has the financial capacity to bear it. It has been observed that financiers attempt to allocate uncontrollable risks widely and to ensure that each party has an interest in fixing such risks. Generally, commercial risks are sought to be allocated to the private sector and political risks to the state sector.

STEP3-Risk Management:

Risks must be also managed in order to minimise the possibility of the risk event occurring and to minimise its consequences if it does occur. Financiers need to ensure that the greater the risks that they bear, the more informed they are and the greater their control over the project. Since they take security over the entire project and must be prepared to step in and take it over if the borrower defaults. This requires the financiers to be involved in and monitor the project closely. Such risk management is facilitated by imposing reporting obligations on the borrower and controls over project accounts. Such measures may lead to tension between the flexibility desired by borrower and risk management mechanisms required by the financier.

Review Questions:

1. Explain in detail the features and structure of Project Financing?
2. Describe Contractual obligations of the parties to Project with reference to financing. Illustrate with an example.
3. What are rules and regulations covering sanctioning of loans to Project Exporters?
4. Briefly explain the concept of Project Appraisal and explain the various aspects related to Feasibility Analysis.
5. Explain the concept of Risk Analysis and Management in Project Finance.

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UNIT-VI

PROJECT EXPORTS: PROBLEMS AND PROSPECTS

Learning Objective: To gain a detailed insight into the problems and prospects of Project Exports from India.

Introduction

The Indian projects being executed overseas are of fairly new origin. But, within a short span of time Indian engineering industry has shown its capability for winning and executing turnkey contracts overseas, civil construction and others. India has emerged as a major exporter of capital equipment and other sophisticated items, including projects and consultancy services. Project exports are regarded as a key indicator of technological maturity and industrial capabilities of a country. Project exports from India do not have adequate presence in International markets. The project exporters need to nurture contacts and develop strategic tie-ups to obtain information at an early stage. Higher success rate in securing overseas project would have a multiplier effect. Securing one type of project export, say Consultancy exports would result in securing turnkey and construction contracts as well as supply contracts.

However this sector of project exports faces certain constraints domestically at the policy level and organizationally at micro level. Both industry and government policy and the procedural mechanism need to be geared to meet and match the opportunities and challenges of project exports. Some of the factors that cause delay in the implementation of projects which have been causing repercussions not only on the individual engineering company, but also on the image and reputation of India are discussed as follows:

PROBLEMS OF PROJECT EXPORTS:

1. HIGH MORTALITY RATE OF INDIAN BIDS:

A survey conducted by ECGC has suggested that price is the main cause of the failure of 85 per cent of the Indian bids. Exporters fail to quote a competitive price because of the limited homework done preparatory to the bidding. Bidding for overseas projects has become a highly specialised and sophisticated exercise. The prebid study helps to arrive at the precise and economic costing of the project work. Some of the Indian parties, on the

contrary, go about the job on the basis of guess-work resulting in the over-estimation of costs.

2. FISCAL HANDICAPS REDUCE COMPETITIVE STRENGTH:

Section 35B of the Income-Tax Act was intended to provide fiscal incentives to the Indian companies to devote more resources for exploration of the foreign markets with a view to boost exports. The Finance Act of 1980 withdrew the benefits of weighted deduction on certain kinds of expenditure which has resulted in higher taxation.

3. TRADING CHARACTER OF THE CONSTRUCTION COMPANIES:

At present, construction companies are treated as trading companies and not as industrial companies which results in:

(a) Payment of income-tax at higher rates;

(b) Deductions for tax purposes not available; and

(c) Erosions in capital and financial base.

4. ABSENCE OF PROPER COMMUNICATION FACILITIES:

Project exporters do not have direct dialing facilities. It is suggested that the Ministry of Commerce should persuade the Ministry of Telecommunications to introduce direct dialing service from Bombay, Delhi, Madras and Calcutta to Jeddah, Riyadh, Baghdad, Libya, Kuwait and capital cities of other Gulf countries. This will facilitate quick communication between India and some of the countries of the Middle East and will of considerable help to Indian companies in servicing of their projects.

5. TRAINING:

It has been noticed that notwithstanding the easy availability of technical personnel in general, project exporters have been finding difficult to get an adequate number of properly qualified technicians and skilled workers in certain specialised areas. As the scope of the project exports further expands, this issue is likely to crop up as a bottleneck. Advance planning is therefore, necessary to remove this lacuna.

6. DELAYED PAYMENT FROM OVERSEAS

It has been reported that a major problem faced by Indian contractors, at the Middle East specially, is of getting payments on time. There are delays and consequently need to resort to overdraft facilities. This necessarily involves certain formalities and procedures to be observed, guarantee to be given, all of which takes time and results in delay in carrying out the work the project. The net result is delay in the execution of the project.

It should be recognized that in projects being executed overseas there shall be cases where there will be an elements of delay and there will be need to resort to overdraft facilities, the response of the banking system would have to be speedy and quick so that the projects being executed overseas are not delayed. Perhaps IDBI working group could deal with such cases and be empowered to take decisions to extend overdraft facilities on account of delays in payment from overseas.

7. CASH FLOWS/SHORT-TERM LOANS

Contractors have reported to ALIEI that when they first draw up their cash flow requirement based on a particular projects schedule, they indicate certain requirement of funds. However, delayed payment by the overseas tendering authorities leads to the contractors seeking fresh loans for short periods. The sanctioning of their loans is subject to delays because of RBI and Bank procedures and the suggestion is that a mechanism needs to be involved by the government where decisions could be taken quickly.

8. REVOLVING FUND OF FOREIGN EXCHANGE

It is suggested because of the fluctuating and changing requirements of foreign exchange for various projects for various items of expenditure, it would be desirable and useful if government could maintain and operate a revolving fund of foreign exchange out of which expenses could be met quickly where these relate to projects being executed overseas.

9. VISAS

This is a problem relating to the foreign government rather than Indian government. For projects and construction contracts, companies need to obtain block visas to cover a large number of personnel, skilled and unskilled. Certain governments are giving this facility; others are not. Iraq, for example, presents difficulties in this regard. AIEI is aware that the Indian government has been

discussing this problem with concerned governments from time to time, government should make it possible to evolve an understanding which would permit the issue of visas and work permits far more easily.

10. MINIMUM WAGES

In recent years there has been much concern expressed about the wages paid by Indian contractors to Indian workmen on projects being executed overseas. This has led to the framing of a formula providing for a certain minimum wage to be paid to Indian workmen who are working at site overseas. This scheme has not been working satisfactorily and is causing difficulties to Indian contractors and engineering industry seeks reconsideration of this policy. There are problem where extra wages are paid because the rate goes up in the countries concerned. There is need for cover when wages go up, etc. Industries appreciate that Indian workmen must be paid a reasonable wage. But this can't be compared to the situation prevailing in the home country because of many facilities provided to the workmen oversea, keeping in view conditions operating there. The wages and their conditions needs to be seen in their totality and it is suggested, therefore, that the Ministry of Commerce may constitute a Joint Working Committee to frame a realistic and reasonable policy for payment of Indian workmen. There would even be a standing committee because this is subject which needs review as conditions are overseas and the policy and procedural framework within the country needs to respond quickly.

11. RELIGION

Some of the countries in the Middle East provide for a certain fixed per cent of Muslim workmen/staff to be taken for any project and this leads to practical difficulties for Indian contractors in case the requisite number of qualified personnel belonging to the Muslim religion are not readily available. Therefore, it is suggested that government of India may negotiate with the concerned Middle East country separately and work towards review and reconsideration of the percentages specified by certain countries. This is especially relevant to semi-skilled and skilled workmen where there is shortage.

12. FINANCIAL LIMITS

The present sanction limit of 10 per cent to 15 per cent of contract value, applied by RBI for project finance purposes, is adequate to cover normal requirements of large value contracts. But there are some jobs of short duration

and less labour-intensive where contractors have to spend much more on equipment in a short period of time, thus making the project finance as high as 40 per cent of the total contract value. In such cases it is necessary for RBI to make an appropriate distinction and operate through different sanctioning limits.

13. INITIAL-EXPENSES

Before conception of any project continuing right through to its execution and commissioning, project contractor has to be involved from the marketing angle, in an oversea project. There are many projects which take time to shape and come to the stage of initiation for tender. There are projects covered in the development plans of developing countries for which the spade-work has to start very early. Expenditure has to be incurred and the Indian contractor has yet to make this mark not at the time of tendering but much earlier. Firstly, the Indian contractor by and large has not been able to achieve the situation of involvement in the project from the very beginning. Secondly, the Indian contractor having much more limited resources as compared to the contractors of advanced countries is not able to sustain expenditure over a period of 2-3 years prior to the projects being finalized. The developed countries appear to heavily subsidize and support their contractors enabling them to spend substantial sums of money on promotional- cum-marketing expenses and there may be cases where the project may not materialize even after substantial expenditure is incurred.

Government should necessarily concern itself about the possible misuse of such facilities and therefore it would be appropriate to make such assistance available to project exporters, with a proven trade record and meeting certain specified criterion to be laid down in advance. This would be the only way to support and improve their marketing efforts overseas and meet the expenses which have to be incurred in project contract. This is gain an example of a new type of situation for which our policy framework really has no provision because we have had not to meet such requirements in the past.

14. CREDIT FACILITIES

IDBI has not modified previous policy and is in most of the cases giving credit for machines CIF port of entry. Similarly, some portion of the service is also financed by the credit from IDBI. It is essential that service portion payable in foreign currency should be financed by the Indian financial institutions. In many cases the buyer wants some local authentication and insists that any foreign exchange required for raw material like steel, etc., for manufacture of

items locally should be financed from credits through the supplier's country. It is therefore recommended that:

(a) IDBI should finance the total foreign exchange of a particular project minus advance receivable from the customer. This should include service portion also.

(b) In case IDBI finds it difficult to finance the whole of foreign exchange portion they should take help of foreign bankers themselves and issue the necessary credit from the source only.

(c) The moratorium by long-term credits is normally inadequate as it takes quite a long time for the project to stand on its own feet and start earning. This period may be extended upto 5 years, hence IDBI should extended the credit facilities for special cases with the moratorium up to 5 years.

(d) There have been certain instances of countries like Indonesia which do not offer any bank guarantees for the credit given. It will therefore be necessary for financial institutions to modify their stand of insisting on bank guarantees on selective basis where credit is extended.

15. PRE-SHIPMENT CREDIT

The pre-shipment credit facility is at the rate of 13.5 per cent p.a. for first 6 months and 15.5 per cent p.a. for the next 3months in case of project exports. The machines and the equipment costs are very high and the production cycle takes longer than 6 to 9 months. Therefore it is necessary that the pre-shipment credit for the project exports should be at the lower rate of interest for longer period than 6 months. The delivery of the machine normally commences after 12-15 months and hence a lower rate of interest of 13.5 per cent should be applicable till the shipment starts, i.e., almost 15 months.

16. SHIPMENTS

To enable the exporter to complete the delivery within time schedules, shipments have to be co-ordinated as per the requirements of the delivery schedule. Unfortunately due to no-availability of ships to suit delivery schedules, the exporter has to face major hurdles. In many cases congestion at ports of loading and unloading has causing enormous problems to the exporters.

In many cases frequency of sailings of the shipping lines from India to the buyers country is very poor thus resulting in delays in execution the projects.

The suggestion is that Indian shipping companies should therefore produce smaller charter ships so that the advantages can be taken by the exporter where large quantum of machines is being shipped in the ports if the ships are small and their turnover is fast. Government of India should encourage Indian shipping lines to carry around 8000 DWT.

17. BLANKET PERMITS

Blanket permits are issued for all major exporters as per the guidelines of RBI. These blanket permits are to be issued for promotion of new business and can't be used for undertaking execution of projects. It is therefore, necessary that RBI issues blanket permit for the project exporters for a particular project after an order is received as it becomes necessary to depute persons at very short notice to take quick action at the project sites. It is therefore, recommended that special blanked permissions be issued to project exporters for execution of projects.

18. EXPENSES FOR SECRETARIAL SERVICE, ETC.

During the visits for submission of tenders/negotiation, etc., it is becoming very necessary to use extensively local secretarial service as well a international telex telephone services. These expenses can't be passed is to the local agent who in many cases receives no remuneration till the contract is awarded and it becomes almost impossible for the persons negotiating to meet these expenses out of daily allowances as sanctioned under RBI rules. It is therefore necessary that special allowances be sectioned for the purpose of secretarial services or long distance telephone/telex when a person is on foreign tour.

19. WAR RISKS

There is no insurance cover available for war risk in advance. It is therefore necessary that government should take up such issues with the buyer country at the governmental level so that the supplier is not put to ------. Many cases have happened in case of war between Iran and Iraq.

20. CURRENCY TRANSFERS

In case of more than one project in a country, exporters are not allowed to transfer currencies from one project to another except that temporary transfers are allowed with the prior consent of RBI. It may so happen that in respect of certain jobs the exporter may be left with non-repatriable surplus. It is therefore suggested that such amount should be allowed to be utilized for another project in the same country.

21. TAXATION

Indian personnel working for Indian contractors deputed for short-term abroad are treated as NRI. During their tenure abroad generally their salaries are paid in India to their relatives or nominees. It is suggested that their salaries be exempted from taxation in India as they render services outside India.

Section VI of the Income-Tax Act determines the basis of residential status for purposes of I.T. liability with the present emphasis on increase in projects abroad. Such personnel are deputed on short-term basis for less than 4 years as well as on longer assignment. As mobilisation time is short movement of personnel need to be fast. The residential status clause serves as a major deterrent for the deputation of salaried personnel for such overseas projects as the movement of such personnel doesn't coincide with the requirements.

In the long-term interest of project exports, it is therefore felt that the qualification of residential status should be so determined that while assessing the personnel sent out on deputation, only the Indian salary is taken into account for tax purposes. Allowance received abroad should be exempted from I.T. liability.

22. SUPPLY OF INDIAN EQUIPMENTS AND TOOLS

It has been reported that project exporters wishing to take Indian machinery, plant and equipment and tools for overseas projects have to get through lengthy procedures which makes it both uneconomic and time consuming. In addition to this, there is a problem that in many project overseas, there is a high degree of mechanization and use of sophisticated equipment which is not always suitable in short delivery periods.

The suggestions are:

(i) The procedures for taking Indian equipment and tools out of the country need to be simple and decision should be taken within 3days.

(ii) If Indian companies are to compete with the service facilities established by international competitors, then Indian industry will have to join together with the support of government to establish service facilities at certain focal point around which number of projects are being executed. Latest example on this score is that of Kuwait. The availabili8ty of such service facility in the Gulf region would enhance efficiency and effectiveness and competitive position of Indian contractors.

(iii) A 3-5 years perspective plan needs to be drawn up of the types of project in which Indian engineering industry is bidding for and will be bidding and arising from that, the type of equipment, and tools would be required. A catalogue should be developed of such equipment and tools and plans made for their manufacture, procurement and availability for the execution of Indian projects overseas. This will ensure that the project exports are not merely restricted to manufacture services, etc., but the equipment part of the project also goes from India, thus increasing foreign exchange earning of the country and decrease the import content from Third World countries.

23. EXCISE

At present, on all bought out items required for project exports excise duty has to be paid for which rebate can be claimed later on. This is not only a time-consuming process but also adds to the total cost of project export. As such it acts as a serious constraint.

Industry is strangely of the view that in case of bought out items also the same procedure should be followed as in the case of manufacture exports when a bond furnished by the manufacturer exporter is accepted and payment of excise duty is waived.

Apart from the above problems faced by project exports, the Task Force set up by the Government of India for Strengthening Project Exports has identified the following problems.

- Although, Indian Project Exporters are technically competent and have demonstrated capabilities, the brand image of India, as a significant project exporter, is yet to be well-established.
- A multi-pronged coordinated approach involving appropriate institutional support and focusing on specific projects/ markets, has yet to be developed. Consortia approach should be given an impetus by both government and industry.
- There is a need for Indian consultants to have enhanced presence in thrust markets at early stages of the planning process. Higher success rate in securing consultancy contracts would have a multiplier effect for securing downstream turnkey and construction contracts as well as supply contracts.
- The financial packages available from the Indian financial system are at times considered not to be competitive enough. Exim India has also compiled data, where Indian companies were unable to pursue business opportunities due to lack of attractive financial packages.
- Stiff competition is offered by other countries, including Chinese and Korea, who arrange financing at more competitive terms.
- ECGC charges of premium for counter guarantees and risk insurance, being higher than the Competitors, affects adversely the cost competitiveness of Indian Project Exporters. An analysis of proposals of value more than Rs. 100 crores received during the last year, i.e., October 2001-September 2002 establishes that 38 such proposals of value amounting to Rs. 9000 crores covered only 17 countries and 14 exporters.
- ECGC is considered to have limited risk taking capability to support large value project exports, e.g. infrastructure projects overseas. BOT, BOO projects and projects in marginal risk countries.
- The world market for power projects is dominated by few World renowned large integrated electrical engineering companies which acts as an entry barrier for Indian companies.
- In case of Turnkey contracts, specifications at times, stipulate the use of equipment of certain international specifications making it mandatory for the Indian exporter to source it through third country imports at a

premium. These third country imports make the cost of Indian turnkey projects uncompetitive.

- Price competitiveness owing to cheaper technical manpower is continually eroding since Indian companies increasingly face competition from companies, for instance, from China in their segments.

MARKETING OF PROJECT EXPORTS

Marketing of Project Exports is a challenging task in the International market, especially for developing countries. The following aspects need to be taken into account by the project exporters for successful marketing of their projects overseas.

1. Price is not necessarily the primary factor in sales. Product characteristics, reputation of the seller, the location of production and credit terms are other important factors. For example, for the installation of 300 microwave relay stations in Saudi Arabia, the number of original bids was narrowed to five. A joint bid by Western Electric and Collins International System (both of US) was resubmitted at $408 million instead of the original figure of $536 million. This was accepted despite a bid of $320 million by Sirti, an Italian firm, presumably because of the reputation of the firm from a previous project.

2. In many of the developing countries bidders have found that buyers frequently do not develop detailed plans and specifications on their own. Some bidders have put together planning studies to aid departments hoping that they would be able to introduce specifications to their own advantage or will obtain preferential treatment in the contract award if the plan is accepted.

3. In spite of the talks on unbundling of the technology package, the trend is towards more comprehensive deals including training, maintenance and infrastructure development. This has resulted in bids being submitted by consortia of companies even from different countries.

4. In the high technology sector the product characteristics are the primary basis of competitive advantage. A contract award by a respected government can influence the decision of other buyers. The award of $500 million telecommunication contract by Australia was carefully monitored by a number of other countries.

5. Governments are also reluctant to buy a product from a foreign firm which has not been successful to sell to its own Government. When the US Defence Department bought aircraft from General Dynamics instead of Northrop, it was effectively out of the competition for sales to Belgium, Denmark and the Netherlands.

6. Although sales of high technology items depend heavily on personal selling, during the bidding process, many firms undertake image advertising. It is doubtful, however, whether this advertising can easily overcome negative reputation. Westinghouse found it more difficult to sell to Government agencies abroad after it failed to meet specifications for a Swedish contract. ITI could not easily overcome its adverse publicity concerning bribery of Belgium officials and its political involvement in Chile.

7. One selling method is reference selling which involves bringing prospective Government purchasers into contact with satisfied customers. Sperry Univac has brought prospective customers of its Airport Control Systems to the United States to see first-hand the operation of the system and talk to the existing users.

8. Agents are utilized intensively for the sale of this type of products apart from serving as conduits for payments to Government officials. They also advise the principals of coming projects and contracts so that they can send their own staff to determine the desirability of going ahead for them. This function is important because the cost of preparing a bid for a large contract may cost more than a few million dollars.

9. A popular way of promotion is through trade shows and fairs. Sperry Univac credits the participation in a trade show in USSR which prepared the ground for a $10 million computer deal with the Aeroflot.

10. Financial arrangements are extremely important for sales to developing and the centrally-planned economies. Most industrial countries offer financial arrangements to promote exports of their firms. Additionally, they participate with international lending institutions which increase the borrowing capacities of these economies.

11. For sales to Eastern Europe many companies have taken resort to a number of barter type arrangements such as direct barter, offset trade, switch trading and co-production schemes.

PROMOTION OF PROJECT EXPORTS

Recommendations of the Taskforce on Project Exports:

An official committee has suggested the establishment of a Project Export Promotion Council (PEPC) and an Export Development Fund in a significant move to bolster the country's project exports.

The Government had set up a Task Force under the chairmanship of the Joint Secretary (Foreign Trade and Investment) in the Department of Economic Affairs to give recommendations on promotion of project exports

It has recommended that the PEPC be an autonomous one with the main function of fostering an effective synergy among Indian missions, Government of India, Exim Bank of India, Export Credit Guarantee Corporation (ECGC), industry associations and commercial banks to ensure early identification of projects, intelligence collection, maintenance of centralised database and fillip to consortia approach.

The Task Force has also recommended that a Director-General, who would be a permanent invitee of the High-Powered Standing Committee, head PEPC, which would comprise divisions to handle consultancy and technology development. The equity contribution for creation of this body would come from Government, industry, industry associations and institutions. The Government has mandated Exim Bank of India to administer the Export Development Fund.

With a view to enabling Exim Bank to provide long-term funding on competitive soft terms for project exports, the Task Force has suggested that the Government consider funding the EDF in US dollars over a period. EDF could be an appropriate vehicle for making available substantial funds for the identified purpose of bolstering project exports.

The following organizations are actively promoting Project Exports from India:

1. PROJECT EXPORTS PROMOTION COUNCIL OF INDIA

As the name suggests, **Project Exports Promotion Council of India (PEPC)** is an export promotion council which was set up by the Government of India in 1984 (as Overseas Construction Council of India). PEPC in line with the Foreign Trade Policy of the Government of India not only undertakes the necessary export promotion initiatives but also provides necessary technical information, guidance and support to Indian construction and process

engineering contractors and consultants – in public or private sector – to set up overseas projects in any of the following modules of engineering service:

- Civil Construction Projects
- Turnkey Projects
- Engineering, Procurement and Construction (from Concept to Commissioning)
- Civil Work, Civil Construction and all Supplies (specific to Turnkey Projects)
- Process and Engineering Consultancy Services (relating to above).

These projects have to be executed in conformity with the guidelines as laid down by the Reserve Bank of India as detailed in their manual designated as Memorandum – Project Export Memorandum (PEM).

Besides, PEPC also provides the necessary technical and market information, guidance and export promotion facilitation to the traders/manufacturers of various Project Construction Items (excluding steel and cement) like the following:

- BUILDING FIXTURES/BUILDER'S HARDWARE
  - Doors and windows fittings & fixtures, accessories & allied products.
  - Roofing materials.
  - Sanitary Fittings & Fixtures.
  - Home Improvement products/systems.
  - Electro-mechanical and building automation systems.
- CONSTRUCTION ENGINEERING PRODUCTS/MATERIALS
  - Wood/Timber products.
  - Construction Glass ... processed – architectural or other glass products.
  - Special Aluminium building products .... structural glazing systems.
  - Electrical fittings, fixtures and accessories.
  - Floor & Wall materials.
  - Coverings & fittings : Stones & Ceramic tiles.
  - Furnishings & Fixtures.

- CONSTRUCTION EQUIPMENT AND ACCESSORIES
- MISCELLANEOUS / OTHERS

Based on the Recommendations of Task Force on Project Exports PEPC would act as an apex body for enhancing project exports. It has recommended that the PEPC be an autonomous one with the main function of fostering an effective synergy among Indian missions, Government of India, Exim Bank of India, Export Credit Guarantee Corporation (ECGC), industry associations and commercial banks to ensure early identification of projects, intelligence collection, maintenance of centralised database and fillip to consortia approach.

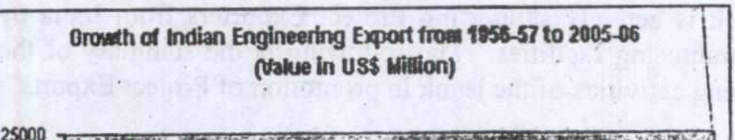
2. ENGINEERING EXPORT PROMOTION COUNCIL (EEPC)

The Engineering Export Promotion Council (EEPC) was set up in 1955 under the sponsorship of Ministry of Commerce, Govt. of India, for export promotion of engineering goods, projects and services from India. Initially started with a few hundreds of engineering units as a small outfit, with a passage of time it has grown to be the largest Export Promotion Council having membership of nearly 12,000 from amongst large Corporate Houses, Star Trading Houses, Small & Medium Scale Units (SME), Trading Houses, etc. Out of the total membership of the Council, 60% constitutes the SMEs. The steady growth in the export of engineering goods from India has been the continuous innovation and setting up quality standards in manufacturing and in delivering services – this is evident as a large number of exporters are ISO 9000 or equivalent accredited. EEPC – right from its inception has been insisting the exporting community on the quality parameter – and the Council itself has the distinction of achieving the ISO 9002 accreditation from world renowned KPMG. This has further been upgraded to ISO 9001:2000 for designing and organizing exclusive Indian Engineering Exhibitions abroad. Engineering exports from India has been steadily growing and the performance has probably exceeded all expectations ever since the birth of the Council. Apart from being one of the largest stakeholders in the total exports out of India, – the engineering exporters are the foremost net foreign exchange earner in the country. As the engineering sector is extremely diversified, the Council has set up different Product Panels with a view to ensure that all possible & potential Indian Products reach out to the global markets.

EEPC aggressively peruses a number of activities & services for its exporting community, its members & the potential overseas buyers with a two-point objective of facilitating exports of Indian engineering products & services to the global market and to provide the overseas buyers true value.

The marketing activities of the Council are manifold and in addition to direct marketing, structured promotional events are organized on a regular basis so as to create awareness on the capability of Indian engineering exporters. The various promotional activities carried out on a regular basis are product specific delegation to select countries, exclusive Indian Engineering Exhibition, country participation in Specialized Trade Fairs, Catalogue Show, Buyer-Seller Meets, Product Specific Seminars and Conferences - both in India and abroad.

- Publicity & Promoting the 'Made in India' brand
- Organizing INDEE / INDIATECH Exhibition
- Participates at leading Exhibitions and Trade Fairs
- Seminars and Conferences
- Trade Delegations and Buyer-Seller Meet
- Trade Informatic Division (TID)
- Foreign Offices of the Council
- The India Engineering Center
- Export Related Services to Members
- Services to the Overseas Buyers



During last five decades, EEPC has been playing a pivotal role in increasing country's engineering exports and as of date, engineering exports have crossed US$ 20 billion in the year 2005-06 in comparison to US$ 10 million that was achieved in the year 1956-57. Engineering exports have been registering steady growth each year and has registered a growth of 27.50% during 2005-06 over the previous year. It is notable factor that the contribution of Small and Medium Enterprises to total engineering exports is about 40%. This sector is the foremost net foreign exchange earner of the country.

3. EXIM BANK OF INDIA

Project Exports especially Turnkey and construction projects are large in volume and necessitate bids being accompanied by packages comprising low cost credits and extended credit terms. This is possible only with Government support and through strengthening of institutions purveying export credit. EXIM Bank plays a very important role in promoting project exports from India. It is the apex credit organization which spearheads Project Exports from India. The Government has mandated Exim Bank of India to administer the Export Development Fund. With a view to enabling Exim Bank to provide long-term funding on competitive soft terms for project exports, the Task Force has suggested that the Government consider funding the EDF in US dollars over a period. EDF could be an appropriate vehicle for making available substantial funds for the identified purpose of bolstering project exports.

EXIM Bank offers credit on deferred payment terms to Indian Project Exporters both as Suppliers Credit and as well as Buyers Credit. Apart from lending programmes, it is actively supporting Project Exporters from India by way of providing guaranteeing facilities. The following is the summary of the lending and guaranteeing activities of the Bank in promotion of Project Exports.

Lending Services

The EXIM Bank lends to Indian Project Exporters both on Suppliers Credit and Buyers Credit basis on deferred payment terms. The following are the various lending programmes offered under Suppliers credit:

1. Supplier's credit for Deferred Payment Exports
2. Consultancy and Technology Services Finance Programme.
3. Pre-shipment rupee credit

4. Finance for Rupee Expenditure for Project Export Contracts (FREPEC)

5. Foreign Currency Pre-shipment Credit (FCPC)

The credit to exporters on deferred payment terms is subject to RBI guidelines with regard to period of credit, quantum of finance, security etc. Accordingly, the facility should be secured by way of letter of credit and/or guarantee from a bank from a bank in the country of import or any third country is necessary. The period of credit is determined for each proposal with reference to value of contract, nature of goods covered, security and competition. Repayment period for supplier's credit facility is fixed coinciding with the repayment of post shipment credit extended by Indian Exporter to overseas buyer. The Indian exporter will repay the credit to the Exim Bank as per agreed repayment schedule, irrespective of the payment made by the Indian exporter. Indian consultants executing overseas involving consultancy and technology services, can avail loans under Consultancy and Technology Services Finance Programme. The credit will be extended by EXIM Bank in participation with commercial banks or the commercial bank may finance and obtain refinance from EXIM Bank. Loan will be generally in Indian rupees. Loan in other currencies can also be considered, if necessary. Credit is also available to eligible exporters under Pre-shipment rupee credit to buy raw materials and inputs required to produce capital equipment that has to be exported. Under Finance for Rupee Expenditure for Project Export Contracts, (FREPEC) the project exporter avails finance for execution of overseas project export contract such as for mobilization, purchase, acquisition of, materials and equipment, mobilization of personnel, payments to be made in India to staff, sub-contractors, consultants and to met project related overhead in Indian rupees. Indian project exporters funded by multilateral agencies will be eligible under this programme. Under Foreign Currency Pre-shipment Credit (FCPC), programme, short-term foreign currency finance is available to eligible exporters for financing inputs for export production such as raw materials, components and consumables

Apart from lending programme under Suppliers Credit, the Bank offers the following schemes for the Indian Project Exporters to establish joint Ventures and Wholly Owned Subsidiaries abroad:

1. Overseas Investment Finance
2. Asian Countries Investment Partners Programme(ACIP)

Indian promoters making equity investment in an existing company or a new project overseas is eligible for finance under the scheme of Overseas Investment Finance. Asian Countries Investment Partners Programme (ACIP) promotes joint ventures in India between Indian companies & companies from Asian countries through four stages of the project cycle viz., sector study, project identification, feasibility study, prototype development setting up project and technical, managerial assistance. ACIP seeks to catalyse investment flows into India by creation of joint ventures in India between Indian companies and companies from East Asian countries.

The Bank offers an exclusive service to the Indian Project Exporters through its various programmes under Buyers Credit, by way of lending to foreign government, companies, etc. The following are programmes under Buyers Credit:

1. Buyers' credit
2. Lines of credit
3. Re-Lending Facility

Credit is extended by the Bank to buyers abroad to enable them to import engineering goods and projects from India on deferred credit terms against an undertaking letter from the central bank of the country regarding prompt release of exchange towards receivables. Under Lines of Credit facility the Bank extend lines of credit to overseas governments or agencies nominated by them, to enable buyers in these countries to Import capital/engineering goods from India on deferred credit terms. This facility enables Indian exporters to offer deferred credit to customers in these countries, as per terms an conditions already negotiated between the Bank and the overseas government. Credit is made available to overseas banks for their lending to importers of capital goods from India. Overseas banks thus would intermediate between foreign buyer and EXIM Bank, who intermediates with the supplier.

NON-LENDING SERVICES

EXIM bank issues guarantees on behalf of exporters of construction and turnkey projects. EXIM bank issues following guarantees directly or in participation with other banks, for Project Export contract:

1. Bid Bond Guarantee

2. Advance Payment Guarantee

3. Performance Guarantee

4. Guarantee for Raising Borrowings Overseas

4. EXPORT CREDIT GUARANTEE CORPORATION (ECGC):

ECGC's insurance covers under specific policies are designed for Project Exporters. Normally the Project Export contracts are of very high value and involve longer credit periods. The country/political risks involved in execution of projects overseas are unpredictable in view of long credit period involved. Although in most cases the overseas buyers are government or semi-government organisations, there is a need for ECGC cover to safeguard the payment risks.

In many cases these contracts are funded by international financial institutions and payments are secured under L/C or bank guarantee. The elements of political risk such as war, civil disturbances, exchange transfer delay etc., are existent in all these cases despite having payment security. To protect such exporters. ECGC has the following types of covers.

Insurance Covers

1. Supply contracts and turnkey projects: For covering supply contracts and turnkey projects, specific contract/shipments policy can be taken. This policy can be for covering only political risks or for covering comprehensive risks i.e. both commercial and political risks.

2. Construction contract: For covering construction contract, a Construction Works policy can be obtained. This policy can be for either political risk alone or for comprehensive risk. The Comprehensive Risks Policy provides protection against commercial risks such as insolvency of buyer, protracted default, and non-acceptance of goods shipped in addition to covering political risk of war, civil war, exchange transfer delay etc.

3.Services Contract: For covering services contract, which involves only technical and/or professional services, a Services Policy can be obtained. This also can be either for political or comprehensive risks.

Guarantees

In addition to the policy covers, which are issued to exporters, ECGC also extends its guarantee support to banks in India against both funded and non-

funded facilities extended to project exporters. The types of guarantees issued by Indian banks are:

1.Funded:

1. Packing Credit Guarantee
2. Post Shipment Guarantee
3. Overdraft Guarantee
4. Rupee Loan Guarantee

2.Non-Funded

1. Bid Bond Guarantee
2. Advance payment Guarantee
3. Performance Guarantee
4. Retention Money Guarantee
5. Overseas Lending Finance Guarantee

ECGC's counter-guarantee can be obtained by banks in India to protect them against any loss that they may sustain owing to invocation of the above guarantees. ECGC's approval of project exports and services contracts is based on the following aspects:

(i) The capacity of the project exporter to carry out large value contracts - technical, professional and managerial, and their past experience in the line of business.
(ii) Country to which the exports are to be made - stability of political set-up/government, soundness of economy, payment records, relations with IMF, World Bank and other international FIs and donor countries.

(iii) Overseas contract/project - value, type of project, whether cleared by local authorities, profitability.

(iv) Buyer / employer - private/government

(v) Payment terms and security, rate of interest for deferred receivables.
(vi) ECGC's underwriting policy on the country and its experience, whether any transfer delay experienced.

(vii) Berne union experience - whether the credit period offered is in line with Berne union understanding.

(viii) Reinsurance back-up available or not.

(ix) Whether need for covering the contract under National Export Insurance Account set-up by Government of India. **Overseas Investment Insurance** OII provides cover for the investments made by Indian corporates abroad in a joint venture or their wholly owned subsidiary (WOS) either in the form of equity or loan. The Government of India or RBI should approve the JV. The basic principle is that the investment should emanate from India and benefit of dividend/interest there from should accrue to India.

Apart from EXIM Bank of India and ECGC the Commercial Banks and Reserve Bank of India are actively involved in promotion of Project Exports from India.

Credit Facilities for Project Exports

Based on the recommendations of the Task Force on Project Exports, a Working Group has been constituted comprising RBI, Banks and EXIM Bank to look into the financial aspects of promoting Project Exports from India. Banks in India offer fund-based and non-fund based credit facilities to project exporters for execution of contracts abroad. Fund-based credit facilities include pre-shipment and post-shipment credits. In addition, exporters can also avail themselves of facilities such as bonds, letters of credit and guarantees. Non-fund based credit facilities are allowed upto certain limits as given below:

- ❖ Bid bond to the extent of 1 to 3 per cent of the contract value
- ❖ Advance payment guarantee to the extent of 15 to 25 per cent of the contract
- ❖ Performance guarantee to the extent of 5 to 10 per cent of the contract value
- ❖ Guarantee towards overseas borrowings to the extent of 10 to 15 per cent of the contract value and
- ❖ Retention money guarantee to the extent of 5 to 10 per cent of the contract value for the release of retention money.

The Reserve Bank has granted general permission to project/service exporters for

- Opening of foreign currency accounts abroad
- Opening of temporary site offices

- Payment of agency commission
- Availing of temporary overseas borrowings abroad.

The general permission is subject to certain terms and conditions which are conveyed to the project exporters at the time of issuing the post-award clearance. A few such crucial conditions are:

1) Foreign Currency Accounts Abroad:

Exporters can open foreign currency accounts with banks abroad for crediting payments by project authorities and meeting project expenses. The cost of supplies made from India temporarily credited to the accounts will have to be repatriated to India as soon as the supplies are made.

2) Site Offices:

Expenses of site office/s should be met out of payments/receivables. No remittances from India will be allowed for maintenance of site office/s abroad.

3) Agency Commission:

The exporter may require the services of an agent for securing market information, following up of bids or liaisoning with the buyers for prompt payment of progress bills/instalments. Agency commission up to 12.5 per cent of the contract value may be allowed by authorized dealer/Exim Bank/Working Group depending upon the nature of the contract. Payment of agency commission at a higher rate needs the approval of the Reserve Bank of India/Government of India. Payment of commission should be made on a pro-rata basis of the payments received.

4) Bridge Finance:

Bridge finance up to 10 to 15 per cent of the contract value may be allowed either by way of remittance from India or by way of borrowings abroad. Foreign currency loan/overdraft should be ordinarily raised against guarantee from a bank in India and the amount of overdraft/loan together with interest should be liquidated out of payments received from overseas project employer. Bridge finance by way of remittance form India is allowed on repatriation basis.

5) Third Country Imports:

The exporter should match his receipts and payments in such a way that no remittance is required to be made from India for imports from a third country.

This could be done by arranging to pay for third country imports out of advance/down payments or on matching deferred payment terms.

6) Opening of Liaison Office:

The project exporter can establish a temporary liaison office at a place of convenience in the country of execution of the project or in another country. Opening of the liaison office, however, requires prior permission of the Reserve Bank.

7) Inter-project Transfer of Funds:

Inter-project transfer of funds of on-going projects requires prior approval of the Reserve Bank/Working Group. The applications, among other things, should be supported by cash flow statements of the borrowing and lending projects. Transfer of funds from on completed project to another on-going project of the same exporter is not permitted.

8) Export of Equipment/Machinery:

Requests for export of construction equipment/machinery on re-importation basis and purchase of motor vehicles are examined and approved by the Regional Office of the Reserve Bank depending upon the package approval granted by the Authorised Dealer/Exim Bank/Working Group.

INCENTIVES AVAILABLE FOR INDIAN PROJECT EXPORTERS:

The following incentives and facilities are available to Indian project exports organizations:

1) Consultancy services exporters whose annual foreign exchange earnings by way of export of services are not less than Rs.5lakhs are eligible for foreign exchange facilities for business development purchase of tender documents, payment of commission, bid bonds etc.

2) In order to cover risks, ECGC has designed policies to cover specified transactions of services exports.

3) Marketing Development Assistance is provided to consultancy organizations which are registered with FIEO for undertaking market studies, opening of foreign offices, publicity campaigns and feasibility studies.

4) Under section 80-O if the Income-Tax Act, consultancy organisations are entitled to a deduction of up to 50 per cent of the foreign exchange earnings in computing total income.

5) EXIM Bank has introduced a scheme, under which deferred payment facilities are available from EXIM Bank in respect of consultancy above for project exports.

6) Facilities are also available for bid preparation as per the details given above for project exports.

7) 100 per cent income tax exemption on export profits from computer software.

8) Setting up of a "Consultancy Trust Fund" of US $0.5 million which the World Bank to be utilized for engaging Indian consultants for World Bank-financed projects.

FUTURE PROSPECTS FOR PROJECT EXPORTS:

Some of South-East Asian and African countries have embarked upon massive infrastructural developmental programmes with assistance from world development bodies and therefore are expected to generate tremendous opportunities for projects exports. Keeping this in view, the task, force set up by the Government of India has struck a note of optimism on the prospects of project exports from India.

They have estimated the total value of project exports at Rs.15,900 crores in 1990-91. They have also concluded that in view of the substantial and increasing deficit in the balance of payment and sharp decline in our exchange reserves, India has no other choice but to promote project exports on the basis of an aggressive marketing strategy. There should not be any dispute over the conclusion of the task force. Considering the high potential and skills available in India, even this ambitious target is not beyond our reach.

It would however call for concerted efforts on the part of Indian firm simplification of government procedures and encouragement through proper financial institutions. Despite the fact that in India there are a large number of firms engaged in engineering contracts, only a few of them participate in Indian bids. The smallness of Indian firms, compared with international standards,

come in our way of undertaking jumbo-size projects on our own. The answer to this problem is a consortion arrangement where different firms in the public and private sectors can form both horizontal and vertical associations for enabling them to tackle very large exports.

In order to step up project exports, the following steps may be considered:

(i) The projects abroad may be a complete turnkey job or may consists of quite a few distinct aspects such as consultancy specifications of equipment and material, capital goods, installation, management, etc. The exporter, in order to get himself fully involved, has to go sometimes to different government agencies to get specific approvals. In case there are any deviations in the norms given to these agencies, the matter is referred to the central government for a final decision. Perhaps it might be a good idea to constitute a project Export Board at the Indian government level consisting of commerce, finance, external affairs, industry, at the level of secretaries. The purpose of this board should be not to take away the functions of existing agencies, but to take up specific cases which may be referred to this abroad and where inter-ministerial decisions are necessary and international practice are at variance to norms known to us. This will go a long way in giving quick decision and will also enable the government at the highest level to know the developments in these important fields so as to evolve policies which will be conducive for our project exports.

(ii) The government has evolved a system of economic commissions and inter-governmental discussions on economic matters with practically all the developing countries which is in line with the international practice. It will be advisable to have detailed discussions in the matter with the council and prominent project exporters in the public and private sectors so that these lines are centred around specific projects and projects and capital goods exports, whereby the country receiving it can utilize the same quickly and help in improving its economy.

(iii) In the recent past, our government has taken considerable efforts in giving a concrete shape to the economic problems of the non-aligned countries and also took positive steps towards East-South cooperation. There are substantial number of projects which are economically viable and tailored to suit developing countries which India can offer.

It is the time that a positive organizational structure is evolved with suitable governmental support and encourages free flow of technology, Project and capital goods from one developing country to another.

Review Questions:

1. Explain in detail the problems faced by Project Exporters from India.
2. Briefly explain the factors affecting Marketing of project Exports.
3. Describe the role of PEPC and EEPC in promoting Project Exports from India.
4. Comment on the financing facilities and incentives available for Project Exports.
5. Comment on the future prospects of Project Exports from India.

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MODEL QUESTION PAPER

Paper 4.1: PROJECT EXPORTS

Duration: 3 Hours Maximum Marks: 100

SECTION-A

Answer any **Five** questions (5x8=40 Marks)

1. What is Project Export and what are forms in which it is executed?
2. Describe the scenario and scope of Project Exports from India.
3. What are the financing facilities available for Investment abroad for execution of Project exports?
4. Analyse the reasons for inadequate presence of Indian Consultancy Exports in International market.
5. Briefly describe the prominent methods of contracting.
6. Explain in detail the features and structure of Project Financing?
7. Describe Contractual obligations of the parties to Project with reference to financing. Illustrate with an example.
8. Describe the role PEPC and EEPC in promoting Project Exports from India?

SECTION-B

Answer any **Four** questions (4x15=60 Marks)

9. Describe briefly the environmental factors that promote project exports and enumerate the various activities under taken by Indian Project Exporters.
10. Provide a detailed analysis of the reasons for loss of bids by the Indian Project Exporters and What are the strategies recommended for the Indian Project exporters to be successful in the International market.
11. Describe in detail the role of EXIM Bank and ECGC in promoting Project Exports from India.
12. Enumerate the various strategies, initiatives and action plan by the Indian consultancy exporters for increasing their presence in the international market.
13. Comment on 'outsourcing' as a business opportunity for Indian consultancy exporters.
14. Briefly explain the concept of Project Appraisal and explain the various aspects related to Feasibility Analysis and Risk Analysis in Project Finance.
15. Explain in detail the problems faced by Project Exporters from India and briefly explain the factors affecting Marketing of Project Exports.

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